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Business Prospects

By ROY L. REIERSON*

Assistant Vice-President, Bankers Trust Company, New York City

Bank economist, after reviewing recent developments, lays ground for belief in further and more substantial downward turn in business activity on: (1) disturbing effects of additional price adjustments on production and employment; (2) lag in consumer spending; (3) reduced level of capital expenditure; and (4) ineffective government spending.

The downturn of business has gained some momentum in recent weeks. It is apparent by now that the postwar boom came to an end in the latter part of 1948, and that the rate of industrial production has declined rather steadily for the past six months. I believe this trend will continue.

The state of business today reflects a fundamental change in the demand and supply situation. Until recently, the multitude of pent-up demands in this country and the rest of the world has boosted income and employment to new high levels. In

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*An address by Dr. Reiersen at the Federal Reserve Bank of Minneapolis, Minneapolis, Minn., May 7, 1949.



Roy L. Reiersen

Severe Slump or a Depression?

By MURRAY SHIELDS*

Vice-President, Bank of the Manhattan Company

Asserting present readjustment, unless the cold war gets better, may be very serious, prominent New York banker, nevertheless, holds nation is in pilot-plant stage of revolution in industrial and agricultural technology which can lower costs and improve quality of products. Warns depression can be severe and prolonged if government resorts solely to its spending power to turn tide and neglects factors which make for private economy expansion. Foresees period of prosperity after readjustments, if task of restoring vigor to private enterprise is approached realistically.

The Present Situation

History warns that booms of the length and intensity of that following World War II have to be "unwound" and that the process of correction always has involved a sharp and substantial downswing in business—although frequently the slumps have been brief. The



Murray Shields

postwar inflation in commodity prices, despite all the well advertised efforts to control it, has been about as rapid and has reached roughly the same levels as those which marked earlier wars; and the current episode has been the result of essentially the same contributory factors, namely, wartime monetary expansion, productive inefficiency and temporarily acute shortages. The pronounced decline in the prices of basic raw materials experienced in the past few months may well foreshadow a prolonged downward movement in commodity prices. In the past such

(Continued on page 34)

*An address by Mr. Shields before the 37th Annual Meeting of the Chamber of Commerce of the United States, Washington, D. C., May 5, 1949.

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EDITORIAL

As We See It

Prosperity as a Farm Crop

So far as one may judge from Washington reports, it is not likely that the new farm program sponsored by Secretary of Agriculture Brannan will reach the statute books this year. The rank and file may therefore be excused for a certain lack of interest in the details of this strange proposal. The line of reasoning with which it is defended is, however, in a somewhat different category, since it is the theme of the agrarians (or should we call them the Physiocrats) of the country for a long time past, and is certain to be employed for all it is worth in preparation for another effort next year to pass some such measure. At bottom, too, this is the philosophy employed by labor leaders and political friends of labor leaders to defend the demands of the unions—and is, for that matter, in increasing degree the argument used by any and all elements who wish to get their snouts into the public trough.

The elaborate defense of his plan presented by the Secretary of Agriculture to a Congressional Committee early last month is, therefore, perhaps worth more attention than it has received. "I want to list several ways in which we

(Continued on page 34)

No Cause for Gloom Regarding The Outlook for Business

By HOWARD C. SHEPHERD*

President, National City Bank of New York

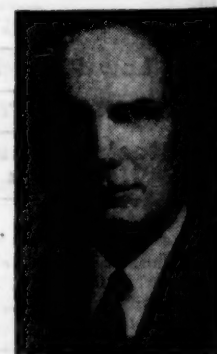
Leading New York banker holds general welfare will not be hurt, but helped by return of competition which will make people work harder. He sees little reason for complaint regarding current downward trend in business. Says stabilization is likely to be achieved at a fairly high level of production and employment, and there is little ground for fear of a serious depression.

Whether the change be called "disinflation" or something else, the inflationary influences in business plainly lost their force some months ago, and the pressure in the boiler has gone down. We see the effects in a shift from sellers' to buyers' markets, in falling

demand and declining prices, in a widespread policy of shortening commitments and reducing inventories. As bankers we see it in a lessened demand for business loans from good borrowers. Production has caught up, pipelines are filled, and plant and equipment expenditures are turning downward. There has been an increase in unemployment, in some places

(Continued on page 43)

*Abstract of address by Mr. Shepherd before the Indiana Bankers Association, Indianapolis, Ind., May 11, 1949.



Howard C. Shepherd

City of Los Angeles Department of Water and Power

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Trusts Show Caution in First Quarter

By HENRY ANSBACHER LONG

Open-end funds increase reserves from cash proceeds of sales of own participations to public. Nevertheless overall portfolio purchases exceed liquidation, with concentration in "defensive" industries as utilities, merchandising, food, tobacco and insurance.

Aided by the steadily increasing interest displayed by prominent stock brokerage houses in the distribution of investment company shares, open-end funds increased their resources to such an extent during the first quarter of the year that they were able to



Henry A. Long

in a ke purchases inequities of the more stable industries, while at the same time increasing their cash reserves. Three closed-end companies—Adams Express, American International and National Shares Corp.—also bought stocks on balance, the first two trusts making rather extensive new commitments in preferreds, over half of which were in utility issues. The common stocks of the public utility companies were the outstanding favorites during the period in view of their comparative stability and good yields. Other groups which were well liked were the merchandising, food and tobacco stocks. Included in this preference for the more stable industries were many scattered individual purchases of insurance shares. The investment companies reversed their field in the steel stocks, and what had been a popular group in the final quarter of 1948 now became the industry in which selling was concentrated. Recognition was apparently being given to the easing of prices in markets for nonferrous metals as purchases of these companies were only half of amounts bought in the previous quarter. The wisdom of such commitments had been questioned in our December survey.

Oils Heavily Held

Purchases of oil stocks again slightly topped sales. As production is rapidly being adjusted to the present supply-and-demand picture, several investment companies still find current prices of many oil equities attractive for the long pull, although at the same time there has been some noticeable liquidation in such prime favorites as Standard of Jersey and Phillips. 30% of the 63 companies included in this survey held 15% or more of their net assets in the equities of oil and natural gas companies. United States & Foreign Securities, United States & International Securities, General Public Service, Massachusetts Investors Second Fund and State Street Investment Corp. had 30 to 35% of their assets invested in this type of security. American International, General American Investors, Lehman, National Shares Corp., New England Fund and Wall Street Investing Corp. were 20 to 25% committed in oil and gas.

Overall Cash Reserves Increase

Cash reserves increased by 14% over the 1948 year-end figure to

\$179 million. Largest increment was among the open-end stock funds, their liquid balances exceeding the previous quarter's total by 30%. Particular attention should be directed to the two Loomis-Sayles funds whose reserves of cash and governments have now been increased to 36 1/2%. During 1948, the Loomis balances had been steadily expanded to 27 1/2%, a fact which we emphasized in the December survey because of the protection these trusts had given their shareholders both in 1929 and 1937. Wall Street Investing Corp., another common stock open-end fund, sponsored by investment counsel (and having no sales load), increased cash reserves during the quarter from 21.3% to 32.2%.

In spite of the fact that 80% of the open-end balanced funds bought equities on balance, half of those covered by this survey were enabled by distribution of their own shares to the public to increase totals of cash and governments. Only four out of 20 of this type of investment fund held more than 70% of net assets in common stocks and more volatile preferreds and bonds. Five held 60% or smaller percentages of net resources in the less stable securities.

Conservatism Emphasized

Many fund managers profess an inability to gauge either the extent or duration of the present recession and it is therefore readily explicable why a generally conservative policy is being followed both in the size of cash reserves and type of investment upon which buying is being concentrated. Exemplifying this viewpoint are statements of several investment company executives accompanying their quarterly reports. William H. Schubart, President of the Bowling Green Fund, comes right to the point: "The outlook for business in 1949 is clouded by the sharp readjustment that is taking place in business. We are now in a period of business recession and it is difficult to judge how far it will go. For the present, we propose to maintain a substantial portion of your Fund in cash, government bonds and securities of less vulnerable type."

Douglas T. Johnston, chief executive of the Fund bearing his name, seconds Mr. Schubart: "... we are now in a period of readjustment. In such a period no one can be sure that the decline in activity will not feed upon itself and thus produce a downward spiral. Adequate reserves are the best insurance against this possibility." Such conservative attitude is also expressed by Carl A. R. Berg of the Russell Berg Fund: "... More than at any

time since the end of the war the national economy seems to be walking a tight-rope between a moderate adjustment followed by stability on the one hand and a substantial recession on the other... a continued policy of moderation and selectivity in the purchase of equities seems desirable. The present holdings of common stocks in the fund remain at about one-half of net assets but during the last six months investments have been increased to an unusual extent in the more stable industries, such as public utility and insurance, where earnings appear to be in a strong upward trend."

Executives of the Axe-Houghton Funds very frequently include significant comments in their quarterly reports. Emerson Axe, President of the funds, states: "A contraction in general business activity, once set in motion, develops cumulative force. For example, a lower volume of business makes it possible for business enterprises to carry smaller inventories and this in turn brings about a further contraction in production. Declining prices in themselves lead buyers to hold off, waiting for still lower levels. Decreased employment reduces retail demand and this affects manufacturing activity... a short, perhaps sharp, business contraction in 1949 is a real possibility."

An Optimistic Note

A more optimistic note is struck by D. Moreau Barringer in the April 8 "Directors' Letter" of the Delaware Fund analyzing the concept of a "revolving" recession:

"By that phrase is meant a business decline which starts at widely separated times in different industries and therefore avoids such a coincidence of declines in many industries as might make for critical unemployment or a serious general depression... This unusual dispersion in time of peaks in various industries gives substance to the hope that a large part of the industries that have been in recession for one, two or even three years may have completed the adjustment of supply and inventories to demand and may now be launched in a phase of production recovery. There are indications that this is occurring in cotton textiles and certain building materials, in rubber and possibly in glass."

With overall purchasing transactions increasing 5% over those of the previous quarter while sales registered a 14% decline, issues bought during the quarter under review exceeded those sold by 35%. Excluding increases from stock dividends and liquidating distributions, purchases of utility issues accounted for 20% of

(Continued on page 28)

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Results of Poll Constitute Severe Indictment of NASD

Views expressed by majority of dealers belie contention in some quarters that organization has aided securities industry and is a voluntary association. Additional comments by dealers pertaining to 5% mark-up philosophy vs. market for securities of smaller business corporations.

We present further below the results up to press time, May 11 of the poll conducted by the "Chronicle" for the purpose of obtaining factual evidence as to the attitude of the securities industry towards the National Association of Securities Dealers, also its policies and methods of operation. As suggested in this space last week, the indications are that the bulk of the replies that could be expected are already in hand, although a few have been received since that time. It was further noted that the outcome of the balloting constituted a severe indictment by the industry of the NASD, *per se*, also its regulations, practices and over-all policy. All this, of course, is readily apparent from a casual inspection of the standings of the poll as set forth in the accompanying tabulations.

In connection with the survey, it is of interest to note that the Board of Governors of the NASD will hold its Spring Meeting at Hot Springs, Va., on May 16-17. Like those in the securities industry, this publication awaits with much interest an official account of the subjects discussed and conclusions reached at this important conclave.

Meanwhile we are obliged to forego detailed editorial analysis of the results of our independent and impartial poll. The controlling factor here, of course, is our desire to accommodate the views expressed by participants in the poll with respect to various aspects of NASD policy. Accordingly, provision is made in this issue, starting on page 8, for the remaining unpublished comments made by dealers with reference to the effect, if any, of the NASD 5% mark-up philosophy on the market for securities of the smaller corporations of the country. This marks the fourth consecutive week that such expressions have been given, the initial group having been published in the issue of April 14. Starting with next week's issue we will reproduce the remarks submitted to us on other aspects of NASD policy.

CURRENT RESULTS OF NASD POLL

(RETURNS FROM NASD MEMBERS)

Total ballots returned.....	999
(1) 5% "Yardstick":	
Favoring.....	216 or 21.6%
Opposed.....	754 or 75.4%
No opinion.....	29 or 3.0%
(2) Questionnaire for Reports on Spreads:	
Favoring.....	231 or 23.1%
Opposed.....	741 or 74.2%
No opinion.....	27 or 2.7%
(3) Examination of Books and Records Where Neither Complaints nor Charges Are Pending:	
Favoring.....	206 or 20.6%
Opposed.....	764 or 76.5%
No opinion.....	29 or 2.9%
(4) NASD Trial System:	
Favoring.....	116 or 11.6%
Opposed.....	853 or 85.4%
No opinion.....	30 or 3.0%
(5) Rule Forbidding Discount to Non-Members:	
Favoring.....	274 or 27.4%
Opposed.....	690 or 69.1%
No opinion.....	35 or 3.5%
(6) Should Maloney Act Be Repealed?	
Favoring.....	641 or 64.2%
Opposed.....	274 or 27.4%
No opinion.....	84 or 8.4%

(Continued on page 8)

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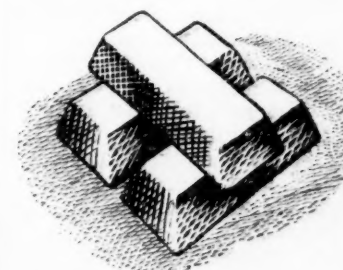
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Building-Up Investment Clientele and Meeting Special Selling Situations

By HAROLD W. DANSER*

of Moors & Cabot, Members of New York & Boston Stock Exchanges

Mr. Danser, urging securities salesmen not to be discouraged because of the "dull, dismal stock market," and contending "this is just the time to go ahead to build clientele," counsels as to details in accomplishing this purpose. Covers methods of obtaining prospects, of making contacts and of dealing with customers. Outlines treatment by salesmen of special situations.

This course is worth-while, 100%. You men have over the past several weeks heard some excellent lectures by topnotch men from various parts of the country. You know now a great deal about the theory and the basic factors on salesmanship. I tonight will talk



Harold W. Danser

especially to the younger men, 30 years and younger. I am sure, however, that the older and more experienced men will get some inspiration and help from my talk. I hope personally I never get too old to listen to and heed new ideas. Our investment business has new ideas, new issues and new thoughts every weekday of the year.

Building Your Clientele

I want to give you men tonight some down-to-earth, clear-cut, practical facts on how to build your clientele and make a satisfactory living for yourself and your family.

I came to Boston from Wall Street, New York, about 15 years ago to build at that time anew, another retail clientele for myself, as I had no contacts nor clients at that time in the retail field in Boston and Massachusetts. I, however, had already planted my grass roots in New England some years previous, as I had received my early education at Exeter Academy, a wonderful school, and my engineering training across the river at the Massachusetts Institute of Technology.

A lot of you men tonight are worried and somewhat discouraged. And if you are sincere in your work, married perhaps, with children to support, you are here tonight hoping to get some down-to-earth usable advice on how to build your clientele. I am shocked by some of the talk of our members. I have talked to some of the boys over the last two or three months, and in some cases these men are planning on leaving this type of business to enter other sales fields of endeavor. Don't give up until you have honestly tried to make a living in this field. I will show you tonight, and tell you, how you can build a clientele. The following is no theory; I have used it myself and thereby built my business in Massachusetts. And our President, Clare Pontius, who knows me well, can vouch for it and tell you it has worked and paid big returns to me. And men, if I should move tomorrow to another city, like Albany, Buffalo, Chicago, I can by the same definite, direct methods which you will hear tonight, build another profitable clientele in one to two years. This procedure, I am informed, does not conflict with any of the present rules of the SEC or the N. Y. Stock Exchange.

You now are in a dull, dismal stock market, and have been ever since Labor Day of 1946. I remember so well after Labor Day on my return to the office, and

*A lecture by Mr. Danser, one of two, the twelfth of a series in a course on Investment Salesmanship, sponsored by Boston University and the Boston Investment Club, Boston, Mass., April 20, 1949.

found the market had fallen out of bed. The market has been a dismal affair ever since.

Wall Street is supposed to be able to forecast and foretell events, not more than six months in advance, but in September of 1946 they forecast a major depression would be coming along. And Wall Street, as it has at other times, guessed wrong. No depression came in six months, one year or two years, and 1948 was a tremendous year on a national income basis of the country, which was approximately \$250 billion, with large earnings and dividends. And now in April, 1949, there are some signs, years late, for this depression predicted in 1946. It appears now as if even 1949 will be a satisfactory one—as measured against prewar years.

But the investors were hurt back in the years of 1946 and 1947, and in some cases were scared to death. In many cases, they sold out their stocks at a big loss, and the public have never come back into this market on a broad scale.

So, men, cheer up. This is just the time to go ahead to build your clientele, for it is an ideal time to get new customers. In good times, when things are booming, stocks are in a big upswing, with everybody buying stocks today and finding them higher next month, it is no time then to get new clients. The stockholder then is happy, all smiles; he then says, "My stock salesman is a great guy, he knows all the right answers and is making real money for me." In that type of situation, you will have a whale of a hard time to get that satisfied client away from another investment salesman.

I want to help you men tonight to learn how to build your clientele this year, when the other fellow's customers can be so easily snatched away.

Keep in Constant Touch With Clientele

The big mistake which any stock salesman can make is to duck away, forsake and neglect to follow, weekly or monthly, his regular clients in this type of dismal stock market. Give your present clients even more service now, talk with them, give them continual business news and earnings of the corporation they now hold stocks in, and let them cry on your shoulder. Give a sympathetic ear to their tales of woe, about Truman, Congress, war with Russia, and so forth.

I have had some of my larger clients tell me, after they have unloaded their woes to me for a half hour, that their heart and mind have been relieved. Then I can talk to them about some new investment situations which they should buy into. Give more service now, men, than you need to in an active, rising market period. I wish you men would follow more closely in your work my Rotary Club motto, "Service Above Self—He Profits Most Who Serves Best." That pays off.

Details of Clientele Building

Now, details about how to build a clientele, and the tools you need. Buy a Stockholders List. You have all seen them. I used

them when I built my clientele, when I came to Boston and had no contacts or clients of any kind. Buy a Stockholders List that carries a "Buy" or "Hold" rating on the Standard & Poor's stock card. The reason for that is, men, I don't want you to go out on your cold-turkey work with a dismal message. Where a man already is down, go out with a cheerful message. Take a stock that carries a "Buy" rating at this time. Have your firm order several hundred additional Standard & Poor's stock cards for the Stockholders List you are going to work on.

I always select a stock to work on that is doing well because, as I say it brings a cheerful message, it puts your prospect into a much more cheerful and more fertile atmosphere for sowing your seeds, to win that man over into your camp, to become one of your clients.

Now, to lay out and prepare to start your campaign. Take off

Do You Want Articles Under One Cover?

On this page we give an additional lecture in the series on Investment Salesmanship, sponsored by the Boston Investment Club and Boston University, transcripts of which are being published in the CHRONICLE. (Previous lectures appeared on-page 4, in our issues of March 3, 10, 24 and 31; April 7 to 28, and May 5.) The Boston Investment Club is anxious to learn the maximum potential interest for copies of a brochure to contain all of the respective lectures. Inquiries in that regard should be addressed to Dr. Douglas H. Bellemore, Chairman, Economics and Finance Department, Boston University, Boston, Massachusetts.—Editor.

the names from the Stockholders List. I use shareholders who hold from 30 shares and upward. Check their present address in the telephone book or the city directory in the section of Massachusetts where you are going to work, segregate them into cities and towns. I advise you younger men and newer men in the business to skip downtown Boston, where they are too hard-boiled and tough. Get out into Natick, Wellesley, Framingham, Marlboro, or a group of towns and cities like Lynn on the North Shore, or Quincy on the South Shore, and on down. And you will find these men and women you will be calling on cold turkey are much more sociable and easy to meet.

After you have taken off several hundred names from the list, then mail out some market letter from your firm, if it has one,

(Continued on page 32)

Stock Market Stalemate Likely to Be Extended

By ROBERT S. BYFIELD

Member New York Stock Exchange

Pointing to the Administration's lighthearted piling-on of subsidies, stock market economist asserts onrushing Federal deficit cannot be ignored by prudent investors. Although expecting continuance of diversity of individual companies' results, he believes profits in aggregate will decline during balance of year. Despite anticipation of adverse events as dividend cuts, Mr. Byfield predicts stock prices will remain in narrow range holding above 1946-1948 lows.

The poet Virgil describes in his *Georgics* that when the giants tried to scale heaven they piled (the mountains) Pelion upon Ossa, thereby adding future difficulty to present difficulty and embarrassment to embarrassment. Likewise, one of the more frightening aspects



Robert S. Byfield

of the Washington scene is the lighthearted fashion in which those in control of the government are seemingly willing to pile subsidy upon subsidy, scheme upon scheme and project upon project regardless of their effect upon the condition of the Federal budget. Long-term spending commitments are being entered into from which withdrawal will not in good faith be a future possibility. Accordingly as is now gradually becoming clear to even the more casual group of observers, we are once more rushing toward a sizable deficit with cosmic speed. Despite growing evidence of an earlier European recovery than had been expected, our ECA expenses will continue for some years at approximately the current rate and there must now be concomitant outlays for the implementation of the Atlantic Pact with military assistance. There are the expenses of the new housing program, the growing appropriation for innumerable public power and reclamation projects and the prospect of larger spending for the veterans and for education. There is furious lobbying for socialized medicine.

It is now practically certain that the 1949 domestic harvests are likely to be so bountiful that the price parity schemes already on the legislative books will be under severe and costly strain to cushion the forthcoming decline in quotations. Some of the results, merely a foretaste of what may happen when and if a real deflation takes place, are high-lighted by the Great Potato Scandal whereby the Federal Government has in recent years spent almost a third of a billion dollars in price support operations and still is handing out \$1,000,000 a day. Most ambitious and perhaps the costliest of all is the Brannan Plan for the guaranty of farm income which does not even have a price tag attached but which we are asked, nevertheless, to accept. Cloaked superficially in the vestments of plausibility, it is from the standpoint of national accounting, merely another collectivist gold brick. The hue and cry for the Welfare State is being stepped up week by week to a crescendo. Its prospectus states in bold face type that, under its banner, the rich shall carry the poor, the well carry the sick, the young carry the old, the landlords carry the tenants and the employed carry the jobless. Only if we read the fine print at the bottom of the last page do we suspect that someone is going to have to pay the bill. As the British experience is definitely proving, the high bracket taxpayer simply cannot carry the load since social welfare costs inevitably exceed estimates and there is, in the long run, no one

except the sheriff and the undertaker to carry those who provide the tools of industry—the men with venture capital. Moreover, and at the risk of being classed by the liberals as a black reactionary, we hazard the opinion that only through exercise of the coercive power of the State can the able be forced to carry the witless, the energetic carry the lazy and the thrifty carry the shiftless.

Nor are the prospects for a sound budgetary situation brightened by an examination of the near term income possibilities of the Federal Government. It is perhaps not widely realized that approximately 60% of the receipts of our Federal, state and local governments are derived from taxing corporate and individual incomes as against only 41% for the British and 42% for the Canadians. This fact contributes to a heightened instability of budgetary intake. There is no question but that corporate and personal incomes saw their peaks in 1948 and the following table will indicate the enormous gains since 1939:

	Total in Billions 1939	1948
Private wages and salaries	37.5	115.6
Business and professional incomes	6.8	25.2
Corporate profits before tax	6.5	32.2
Corporate profits tax liability	1.5	12.5

No one expects the national economy to shrink to anything like its 1939 size, but it takes no tax expert to recognize that a government which depends so largely upon incomes as ours should prepare itself to shorten sail in the event of deflation and not stubbornly attempt to freeze its expenditures to a rate which can be supported only by a record national income and an unprecedented prosperity. High fiscal authorities must surely realize that, more than ever before, the Federal Government is "in business" and is subject to its changes, its volatilities and its vicissitudes.

Current Earnings Diverse

First quarter corporate earnings though, in the aggregate, slightly higher than the corresponding period of the preceding year, were so diverse that they provided few clues as to what might be in store for the various industry groups during the balance of the year. Lower earnings than in 1948 were shown by the cotton and wool textile companies, the oils paper and pulp, railroads, electrical appliances, mining, building supplies and retail trade groups. The automobiles and accessories, iron and steel, machinery and allied groups showed gains, but these are likely to be deceptive at the rate backlogs are being used up. Judging from the rate at which bookings are falling behind billings in most capital goods lines the first quarter results will undoubtedly be the best of the year and corporate profits in the aggregate should decline from here on in.

Basic Market Observations

In a discussion of the effects of the election which appeared in

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

As was true in past weeks, increases in the production of some goods counterbalanced declines in the output of others last week, thus making for a sustained high level of total industrial production for the country as a whole. Aggregate output in the latest week was also close to the high point prevailing at this period one year ago.

Total claims for unemployment insurance for the week ended April 30 showed an increase for the third successive week, the Federal Security Agency reports.

However, the total of initial claims resulting from new unemployment declined, according to the Agency. The total of such claims by "newly unemployed" dropped from 341,500 to 321,900 during the week. On the other hand, total initial claims rose from 347,500 to 573,500, mostly because of the new benefit year in New York State. Total initial claims for week ended May 1, 1948 was 222,812, the Agency pointed out.

Continued claims, which are filed by workers each week of unemployment after filing the initial claims, totaled 2,051,063 for the week ended April 30, up 65,700 over the previous week when the total was 1,985,321. For the week ended May 1, 1948, the total was 1,088,976.

With respect to a report on labor turnover in March, released by the Labor Department, this bureau revealed that 4.6 workers out of every 100 left their jobs in March, compared with 4.1 in February and 4.5 in March, 1947. High since the end of the war was the 6.9 for September, 1946. The average in 1939 was about 4.7.

The report said 1.5 per hundred in March quit compared with 1.4 in February and 2.8 in March, 1947. The high point established for quitting was in 1946, when 5.3 workers per hundred quit in both August and September of that year. The 1939 average was about 0.8.

Layoffs accounted for most of the job-leaving, the report adds. In March 2.8 per 100 workers were laid off, compared with 2.3 in February and 1.2 in March of last year. Layoffs in 1946 averaged about 1.1 per 100, and in 1939 about 2.2.

Chain store and mail order sales in March held close to the level of February, but were slightly under that of March, 1948.

The Commerce Department's seasonally adjusted index for these sales stood at 300.6 in March, compared with 301.1 in February and 303 in March, 1947, with 1935-39 average as 100.

In actual dollar terms without allowing for seasonal influences—the shortness of February and the later Easter this year—March sales totaled \$2,190,000,000, up 15% from February's \$1,862,000,000. The March total was about 5% under the \$2,315,000,000, reported for the like month last year.

Favorable weather and promotional sales in the week helped to raise total retail dollar volume very moderately about that of the previous week. It was slightly below the level of the similar week last year. Seasonal merchandise, it was noted, increased in popularity in many areas.

Wholesale buyers placed a slightly larger volume of orders than in the previous week. Total dollar volume was reported moderately below that of the corresponding week a year ago with many buyers continuing to seek seasonal goods for special promotions. Collections were generally less prompt than at this time last year.

STEEL OUTPUT SET AT 96.2% OF CAPACITY IN CURRENT WEEK AS AGAINST RECORD HIGH OF 102% IN WEEK ENDED MARCH 19

The steel industry this week is settling down to a normal pattern with the consumer in the driver's seat and most mills comfortably fixed for business through July at least, according to "The Iron Age," national metalworking weekly, in its current review of the steel trade.

It is clear to most people in steel, the magazine states, that a lower ingot rate is a certainty for the last quarter of this year or sooner, with speculation as to just how low it will or will not go.

The new element in the picture this week is the dark labor outlook. It will affect steel because auto strikes mean cutbacks in steel orders. Auto people will, if they can, stock some steel but there is a limit to what they can store until strikes are at an end.

If the cancellations from Ford and any other auto firm that may be hit by strikes are too heavy it means that other steel users will get their steel earlier than they thought. They may not want it that fast. But that decision may not have to be faced if steel runs into a long coal strike or a steelworkers' stoppage, this trade authority notes.

If there is a coal strike lasting for several weeks steel ingot output may not be affected to the same extent as in other years, states this trade paper, since stocks of coal and coke are heavy and are still being built up. That suggests that a strong front is being set up against any United Mineworker demand which steel company coal mine officials consider unreasonable.

When the steel ingot rate really begins to slip later this year it may establish a new pattern. Whether it falls precipitately or whether the decline is gradual there will be a great difference districtwise. This will be due to the f.o.b. method of selling steel, "The Iron Age" points out.

Unless there is some legal clarification on freight absorption soon, which steel firms can confidently hold on to, Pittsburgh and Ohio Valley areas may be hard hit when orders fall off. Chicago furnaces may be running at a higher rate than Pittsburgh or Ohio Valley plants. As long as the customer has to pay the freight he will try to fill all of his needs close to home.

Mills which depend on remote consuming areas to keep their rates high will be the first to be affected if the decline in overall steel business is serious. It is significant that the Pittsburgh, Youngstown, Wheeling and Cleveland areas account for 43.4% of the total

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The Investor Under Socialization

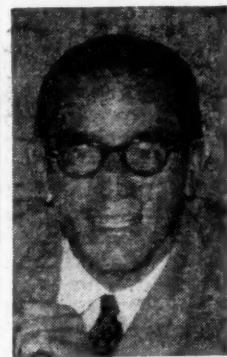
By A. WILFRED MAY*

Former Special Economic Expert, Securities & Exchange Commission
Associate Administrator, War Finance Division, U. S. Treasury

Mr. May cites advanced degree and worldwide scope of interventionism by the Maternal State. Advises investor, when thinking in terms of his own preservation, to try learning to live under continuance of such trend. On basis of European and Scandinavian record, concludes under collectivization all capital-owners must suffer progressively, but with such deterioration partly mitigated by transfer from rentier function to equity-ownership.

We shall first outline the scope of today's socializing process—as to "coverage" and likely duration—and then define the repercussions on the investor's status.

The "possibility" of coming socialization now seems to be fairly well realized. But there are two



A. Wilfred May

first-hand observations of the process in Great Britain (In the "Chronicle" May 5, p. 1):

"Those who believe that the state is a more effective, juster and more farsighted agent for the production and distribution of goods and services are to be found in all parties. The contemporary engulfment of the human mind in mass irrationality—the belief that in some way the state should and could order all the economic affairs of its citizens as a good housewife orders the affairs of a happy household—has been no respecter of persons or parties. It has affected young and old, the innocent and the sophisticated, the conservative and the progressive."

Another element in our socializing process not so fully realized is how far this country has already gone down the prim-red path.

In connection with our unrealized "gradualism," I think it is extremely worthwhile to realize how in other countries the people have, through wishful thinking or just general complacency, fairly "slid" into a different and unwanted kind of society.

England did whistling-in-the-dark similar to our own after Election day last November. The precedent for our comforting thoughts, as that Truman "is at least not a Communist," that "he didn't mean what he said in the heat of campaigning," that "Dewey might have been worse," etc., was the unconcerned reaction in Great Britain over the Labour Party's victory in July, 1945. I want to emphasize that this complacency did not emanate alone from the expected quarters harboring the Laskis, the Beveridges,

*An address by Mr. May before Annual Banquet of the Economics Society of New York University; Hotel Statler, New York City, May 7, 1949.

and the Shinwells, but from the capitalist class.

The Half-Free Philosophy

The degree to which we in this country have already unwittingly travelled down the collectivist road, its rationalization and the difficulty of combatting it, are illustrated in the following excerpts from a recent communication addressed to me on "the dogmatic limitations upon the economic activity of the liberal state." Coming from a liberal educator far enough to the Right to have supported Governor Dewey in the last Election, this slick language typifies the present very effective pressuring of the unwitting public by "middle-of-the-roads," protesting their love for Capitalism.

"Our own liberals—in which term I include you and me," he writes, "weaken our case sadly by our persistent failure to face the facts and to assign to the state things the state can do and private initiative can't. Our crowd is disgustingly infected with dogmatists who yelled against the T. V. A., which has produced an enormous number of private openings for private initiative where none existed before. A Missouri Valley Authority whether centered in Washington or in the group of states washed by the river, could contribute two to three million irrigated farms; could give security against floods to another half million, could supply electrical power to innumerable towns and farms now in darkness. As we all know, a million farms implies two million families supported by transportation, manufactures and trade. All private initiative."

"Our system of an economy based on private initiative, like all good things, has to be fought for. Its most dangerous enemies are not the doctrinaire socialists but the doctrinaire capitalists, who try to block the activities like the T. V. A. and the dozen other river Authorities we ought to have, under the delusion that all governmental activity is socialism."

"There are hundreds of thousands of people who will say, 'If that is socialism, we are socialists.'"

"John Wesley took the best bar room airs and set hymns to them, declaring it monstrous that the Devil should have all the good tunes. If Socialism is the Devil, you'd better get to work to reserve some of the good tunes."

This is a very expert and sincere refurbishing of the thesis that

a state can indeed exist half-slave and half-free, combined with the increasingly popular theme under which the Socialisers are selling their wares, namely, that the state must step in to fill the breach left by the stubbornly unwilling or impotent free market-ers.

The "Distasteful Necessity" Criterion

This criterion of "necessity-for-unwanted-intervention" as the test for the state's intervention is fallacious on two main grounds. There is the utter impossibility of applying objectivity in determining the point at which such free market impotency takes place. Whether by the free-enterprising N. A. M. members or the Keyserling planners or those holding political-economic convictions between the two, who, pray, in the absence of quantitatively-defined standards, is going to make the decisions prescribing when it is "necessary" for the state to step in (a doubt reinforced by the Administration's recent pleas of the need for enlarged steel capacity)?

The Planners' Destroying-and-Rescuing Tactic

Another obstacle to objective judgment as to the need for nationalization and socialism arises from the socialist tactic of the planners themselves in first undermining free institutions, and then proclaiming that their failure to function effectively "unfortunately" compels an "unwilling" government to step in to fill the breach.

We have seen this tactic pursued in a number of specific instances by our own Fair Deal as well as the British Labor Government. Here we have seen this instanced in steel and in banking. First by taxation and overall attacks on profits, government undermines private industry so that it cannot provide the required new plant and equipment, and then—per "Spence Bill" philosophy—it seeks to step in itself, to supply the very plant capacity and tools which it has been preventing industry from getting.

The steel industry is a good instance of this. During the postwar period costs have steadily risen, paced by government-encouraged wage rises—in the face of fairly effective price controls, or at least obstruction to offsetting price rises. Rising long-term breakeven points also have accentuated the climate of difficulty in attracting

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Pointers on Selling

For clever, helpful hints for selling securities read the "Securities Salesman's Corner," a regular feature in every Thursday's issue of the "Chronicle."

ITO Charter Should Be Approved

By WILLIAM L. BATT*
President, SKF Industries, Inc.

Leading protagonist of International Trade Organization defends its charter as drawn up at Havana Conference, and, though admitting it is a vulnerable document, urges its ratification on ground it fits in with other international economic organizations and offers better protection to participants in foreign trade and investment than any other previous arrangement. Says ITO is not all powerful organization, and failure of U. S. to ratify it would cause loss of U. S. world leadership.

Two years ago, I had the pleasure of talking to you. I looked over my notes the other day to see if I said anything that might contradict the position I am taking now. I want to read one quote. I said then: "I hope we shall be able to make as much progress in the

interest of economic peace as we have towards political peace. I hope we can resolve as a nation to attack the problems of world trade and employment as we are attacking the causes of war."

My support for the International Trade Organization rests on one deep-seated conviction, that the well-being of our country will in the long run be affected by the volume of our export-import trade, that our productive processes have so developed and are so diversified as to require other markets than our own, and that a vigorous world commerce will serve our own best interests.

What about this charter for an ITO? It is interesting to know that 30% of your membership said they had read the charter. I have it in my hand here. It is a very long and detailed document and I suspect that even some of that reading, Mr. Chairman, was likely to be a little sketchy. I know that is my own experience with the first reading of it.

The experience of the twenties and thirties with the succession of loosely drawn, sweeping generalities made it clear that some new and better approach to a code of ethics on international trade was essential. The lend-lease agreements of the war had that in mind.

Our White Paper in 1945, laying down certain fundamental American principles, led to a meeting in London in 1946, to a meeting in Geneva in the spring of 1947, and finally this document that came out of four months of work in Havana.

This long record of U. S. assistance on freer and more multilateral trade is one of the strong reasons, in my judgment, for approving this agreement.

In an editorial in the New York "Times" on Dec. 22nd of last year, that paper said:

"The ITO charter is a code of international conduct in the field of commerce which, despite its many necessary compromises, constitutes one of the most important international documents of our time."

Now, if you are ready to give up this whole business of international cooperation because you have been so discouraged; if you are convinced that we have gone too far in our tariff policy, and that it is time we backed up; if you feel that the power of the United States should be more aggressively used to force different economic policies on other governments; if you are so discouraged about the development of the United Nations and its various organizations that the whole thing seems to you to be rather hopeless, then, of course, I think you are not going to support the ITO.

Now if, on the other hand, you believed and still are hopeful for

*An address by Mr. Batt before the Export Managers Club, New York City, April 26, 1949.



W. L. Batt

the general principles of the United Nations, the Bank and the Fund, reciprocal trade agreements, the Marshall Plan and, last but not least the Atlantic Pact, then I suspect that you will probably finally support the ITO.

You will have supported these international ventures because you find that our economic policies of the '20s and '30s did not work—they attempted withdrawal from Europe, our hit-and-miss financial policies, our ill-advised loans and credits, our increasing tariffs and trade restrictions of the early '30s. You may conclude, as I have, that all of these had a very significant part in bringing on World War II.

The ITO Charter

Now about this ITO charter (and I shall be very brief and not technical because I am not an expert): Mr. Will Clayton who, as you know, helped to initiate this whole development of freer international trade for the United States, said of the charter:

"Behind the charter and its scores of articles, there lies a simple truth. The world will be a better place to live in, if nations, instead of taking unilateral actions without regard to the interests of others, will adopt and follow common principles and enter into consultation when interests come into conflict. And this, throughout the entire range of trade relationships, is what the signatories of the charter will agree to do."

It is detailed. If it is to mean anything, it must be detailed. Buy a ton of steel or look on the back of your life insurance policy or fire insurance policy and see what details are necessary merely to give some understanding of the agreements in such a simple transaction. If this document had been in broad terms, it would not have brought down on its head the widespread criticism it has. It is large and because it is large and visible it is a vulnerable target. But Dean Acheson said immediately after he became Secretary: "The really successful national and international institutions are those that recognize and express underlying realities."

I would like simply to break down this charter for you as I tried to do for myself.

There are, of course, the opening generalities. There are 106 articles altogether in the charter. The first 15 of them deal with these generalities about fuller employment all over the world, economic activity, development and reconstruction—and in those first 15 are these famous Articles 11 and 12 which have to do with the status of foreign investment.

Then the next 30 have to do with commercial restrictions—tariff and state trading and the like.

The next 10 deal with restrictive business practices which I will call, for simplicity sake, the cartel part of the picture. And the next 15 are on commodity agreements. Finally, the 35 deal with the mechanisms of the organization itself.

There are very many in this country—most of them I think not heard from so much—who, after weighing all the pros and cons, do favor the ratification of this charter. Because they will not see in it the dangers which others do. They will conclude that its primary function is to afford certain

broad declarations of the nations of the world toward an objective of freer and more multilateral trade. They will recognize, of course, that many of those declarations are given on the part of many countries with tongue in the cheek, but, for the value it has, they will like to see the signature of these governments to those principles. They will most of all approve of a round table where these problems of international trade can be discussed. They won't find any coercion of the United States in that document. They will like the specific commitments which run through the charter for less restrictions, rather than more.

On the plus side, the farm groups are for it, I think, for fairly obvious reasons. The commodity agreement approach appeals to farm groups and antagonizes others. Labor is for it. Some of the business groups of the country are for it, but obviously not all.

I think it is a correct statement that most of the opposition on the part of business groups centers here in New York. I don't know whether we might conclude that New Yorkers made more difficulty about the Constitution in 1778 or not, but I think it is a historic fact.

Those who conclude that we may lead the world through our influence but will not succeed in driving it, will find more of encouragement in the charter than they do of discouragement.

Those same people now, while they will insist on our sovereignty, will recognize the same rights for others.

Causes of Opposition

There are, of course, among those who oppose it those who have views, which I regard with the greatest of seriousness—who see it as an increasingly open door to international socialism and think that the countries who believe in planned economies have been more successful in writing that atmosphere into this document; those who fear that the United States Government will sell its own high principles down the river; and then, as I said a moment ago, there are those who don't like commodity agreements. I don't happen to like commodity agreements. And I think as I read the chapter on commodity agreements that the likelihood of additional commodity agreements is very small if all of the terms of that document are complied with. But without it, I see an alternative which I like less.

The provision for the consumer as well as the producer is a factor that seems to me to be of some considerable importance as one weighs the commodity principle.

But there are those who think that the commodity agreement principle will be adopted on a wide scale and that, before we know it, we shall find all of the commodities that run into world trade the subject of commodity agreements. I think that is a mistake in judgment. They feel the recognition of those restrictions such as those that have to do with the shortage of dollars was an unwise concession. They are dissatisfied with the investment provision. I think we have reason to be dissatisfied with the investment provision. Because it certainly does not go nearly as far as American

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The Outlook Related to Gov't Spending and Support Programs

By WESLEY LINDOW*

Vice-President, Irving Trust Company, New York

Predicting final government expenditures in fiscal year 1950 at around \$47 billion, or \$7 billion more than previous year, bank economist stresses point that this heavy outlay will reinforce business situation. Foresees Federal deficit in 1950 and possibility of tax increases. Says present situation is not comparable with period following World War I, which produced 1920-21 depression, and contends at present government has whole system of props and supports to secure stability and balance in economy.

My subject tonight is certainly controversial. I am unlikely to satisfy anyone in trying to explain the economic significance of government spending and support programs today.

All over the world the people are groping to determine the place of government in economic life. The argument goes pretty far at times.

In this connection, I would like to read a few lines from a speech of Winston Churchill delivered in October, 1947. He was discussing a government move to conserve fuel by urging citizens to take less baths.

"I will conclude my strictures in the social and domestic field by reading the latest economies proposed by the new Minister of Fuel and Power, who represents, I believe, Socialist intellectualism and the old school tie. He advocated—according to what I read in the public press and I have made some inquiries about its authenticity—he advocated a policy of fewer baths. I really must read the words which he is reported to have used, as I think they constitute almost a record:

"Personally, I have never had a great many baths myself, and I can assure those who are in the habit of having a great many that it does not make a great difference to their health if they have less. As for your appearance, most of that is underneath and nobody sees it."

"When Ministers of the Crown speak like this on behalf of His Majesty's Government, the Prime Minister and his friends have no need to wonder why they are getting increasingly into bad odor. I had even asked myself, when meditating upon these points whether you, Mr. Speaker, would admit the word 'lousy' as a Parliamentary expression in referring to the Administration, provided of course, it was not intended in a contemptuous sense but purely as one of factual narration."

I hope you will remember that my job tonight is not to discuss the merits and weaknesses of particular government policies in the economic field. I shall try to stick to the actual facts about government activities with a minimum amount of editorial comment. We should weigh things as they are without regard to whether we approve or disapprove.

Ever since the end of the war, there has been talk of a recession along the lines of the 1920-21 recession. Personally, I feel that there are more differences than similarities between the two periods. This is particularly true in the field of government. I would like to discuss this in two parts. Part I will consider the overall budgetary situation and Part II will take up the specific govern-

*An address by Dr. Lindow before the Bankers Forum, New York Chapter, American Institute of Banking, New York City, May 4, 1949.



Wesley Lindow

ment programs which provide economic props and supports.

Turning first to the budgetary situation, the first point I would like to make is that Federal Government expenditures are now increasing, whereas in 1920 they were decreasing. After World War I, we went quickly into a period of peace and disarmament. Total Federal expenditures were \$18½ billion in the fiscal year 1919 and fell to \$6½ billion in fiscal 1920 and to \$5 billion in fiscal 1921. The recession could be labeled pretty accurately as a fiscal year 1921 recession, yet expenditures dropped further during that year.

The present situation, of course, offers a tremendous contrast because of the cold war. Here, I want to refer to figures on cash operating outgo which consolidate expenditures of Federal trust funds with regular expenditures to get at the aggregate non-duplicating outlays of the Federal Government. After V-J Day, cash operating outgo declined sharply, falling to \$36½ billion in the fiscal year 1948. Then, it started up again. Cash operating outgo is estimated at \$40 billion in the present fiscal year or about \$3½ billion higher than fiscal 1948.

In fiscal 1950, there will be a further sharp increase. The official estimates of last January carried cash operating outgo to \$44 billion before proposed extension of social security programs and to \$45½ billion with the new proposals. All of these proposals are not going to be adopted. If we split the difference here, we can use a round figure of \$45 billion.

Proceeding from here as a benchmark, it seems clear that this estimate is too low for several reasons. Unfortunately, we can do little more than guess at new figures, but it looks as though the total might go up another \$2 billion. I am going to give you some very rough figures to show how budget increases have overshadowed budget cuts.

First, nothing was included in the budget for military aid for the nations allied with us in the Atlantic Pact. The Administration has asked for an appropriation of \$1 billion for this purpose. A large part of this will go to the Armed Forces to pay for surplus equipment transferred abroad. The Armed Forces, in turn, will spend these funds for new equipment; but there will be a lag. Senator Connally has said that, on balance, Federal cash outlays will go up by something like \$½ billion in fiscal 1950, because of the Atlantic Pact.

Aside from the Atlantic Pact, it looks as though National Defense expenditures are going to run pretty close to the budget estimates. The House of Representatives has deleted the proposed program for universal military training, but has shifted the savings over to increased authorizations for the military services.

Second, let us consider expendi-

(Continued on page 37)

From Washington Ahead of the News

By CARLISLE BARGERON

A nationally syndicated "Liberal" columnist has come out rather indignantly against use of the term "labor bosses." This is, he says, a propaganda expression used by the reactionaries with a view to putting them in a bad light. They are, he insists, no different from the managers of industry except that in many instances they are better. They perform a highly useful service in our society and should be honored instead of being the subject of bitter criticism.



Carlisle Bargerón

The trouble with this columnist, as with so many others writing about or legislating on the subject of organized labor, is that he knows little or nothing about it. There is very little comparison between the managers of industry and the labor leaders. There is very little comparison on the higher level and very little on the lower level, say between the foreman and the union boss on a particular job. They are of a different mould.

You find among managers and foremen, the hardest boiled of them, a respect for the workers, not necessarily for them as fellow men but as workers. A good worker commands the respect of the manager or foreman any time. Self-interest calls for it. The "executive" is interested in getting work done and he is inclined to nurse along the worker who can do the work.

Labor leaders are a breed of their own, speaking generally. They don't fraternize with their members. They rule them with an iron hand. I have never in my whole hectic career seen the employer talk to men as the union bosses are wont to do. They are aloof, dictatorial and it is more difficult for an ordinary member of a union to see the top man than it is to see his employer.

I have no doubt that these labor leaders know what they are doing. It is doubtful if the employer could be successful at their business. Their business is to organize and rule men as tightly as a military leader commands his troops.

They are schooled in the onerousness, the pure cussedness of men in the mass and it is men in the mass they are dealing with. The whole theory of a union, in fact, is that individually these men can't take care of themselves. Their limited talents have put them among the mass and they have to have someone to think and act for them.

What this country has lost was the opportunity of a man with unusual talents to get out of this groove. With the workers now organized so thoroughly, with nearly every industry organized, there is little chance for the individual worker to get out. He starts life in the groove and there he remains. The union will not even permit him to switch from one employer to another so the competition for his services, by which he could improve his lot, no longer exists. He must even have the approval of the union to move from one locality to another.

The union used to be a means to an end. Some of the country's most outstanding men were formerly members of a union. Now the union, or membership in it, is considered an end in itself.

The union leaders, even the kindly natured among them, of whom there are plenty, men of unquestionable honesty and sincerity of purpose, maintain a hierarchy or caste system as rigid as the military. The enlisted men do not associate with the junior officers and the junior officers do not associate with the higher brass. A leader of a local union would no more try to arrange an appointment with Bill Green or call him Bill as does everybody else, than he would cut off his best working finger. Only the presidents of the constituent groups of the AFL speak to Green and they in turn speak only to the officers immediately subordinate to them.

I have had a lot of delightful associations with many labor leaders. It is a study to watch them in a labor assemblage. No high officer will leave the meeting until the other high officers have made their speeches. Then they leave in a group, leaving the assemblage to the next echelon. They in turn leave in a group and so it goes on down the line. It is *lese majeste* to bring up any of the more disagreeable matters in the presence of the higher commands unless, of course, it should be one on the higher level.

Unquestionably there are many employers in the present Taft-Hartley Act fight who are thinking of their own selfish interests. But there are many others who are sincerely trying to give the individual members of the union more freedom within their organization. They are trying to break the yoke with which the union boss can completely dominate the lives of his fellow men.

It is idle to talk about what John L. Lewis, for example, has done for his men. He can and does call them on strike at will and they lose in a few weeks any wage increases they have gained. Manifestly he charges too high dues because the union treasury is bursting with funds and he doesn't pay strike benefits when the miners are on strike. It is generally believed that he has recently bought a Washington bank. The union owns all sorts of real estate. Of what earthly good is this to the miners?

I know of no employer who has as much power over his employees as the union leader or union boss under the present mass organization of workers which the unions have accomplished.

Havana ITO Charter a Dishonest Document

By PHILIP CORTNEY*

President, Coty, Inc.

Author, "The Economic Munich"

Industrialist-economist declares Charter is intellectually dishonest document because there was no meeting of minds between U. S. A. and Great Britain in fundamental questions of free convertibility of currencies and free international trade. Maintains it would shackle American competition and permit perpetuation of quotas needed for socialistic planning. Claims it would further economic nationalism and restrain international trade.

It may be no secret to many of you that I am an ardent internationalist. I therefore submit that there must be something wrong either with my mind or with the Havana ITO Charter which prompts me to fight against it, together with some isolationists and

high-tariff people, much as I dislike the company. Now, I am checking on my mind by pressing with questions those who made or support the Charter. The answers I receive are such that they only confirm me in my conviction that the



Philip Cortney

Havana Charter should be rejected. I evidently only have time to criticize a few provisions of the Charter which in my estimation are the most dangerous ones to our own economic system and to peace. Those of you who may wish to go deeper in the matter (and I hope you will, in view of the importance of the issue, not merely in dollars and cents, but for the survival of our

*An address by Mr. Cortney, before the Export Managers Club, New York, April 26, 1949.

own system) and understand more thoroughly my position, may wish to refer to my article in the April 7 issue of "The Commercial and Financial Chronicle," and also, if you have the time, to my recent book "The Economic Munich."

The Havana ITO Charter is a bad and intellectually dishonest document because there was no meeting of minds between the main countries which negotiated the Charter. The United States and England tried to reconcile by words their irreconcilable positions on free trade and free convertibility of currencies. The Charter purports to reconcile the conflict between countries which indulge in socialism and nationalistic planning and seek solutions to their economic problems in restrictions of trade and controls, and countries which favor expansion of international trade and internationalism. The countries which participated in the negotiations for the Charter had not the same objectives notwithstanding the high-sounding ideals expressed at the opening and at the conclusion of the negotiations. The result is a document which enunciates piously principles satisfac-

tory to a country like ours but which codifies exceptions to principles in such a manner that the exceptions become in fact the rules the participating nations are to abide by. I do not question the good intentions of those who negotiated the Charter on behalf of the United States; I am challenging the result. In point of fact, I am amazed and puzzled that at least one of our negotiators, who is a successful exporter, should have placed his signature under such a document which is a negation of everything this country stands for. In the Havana Charter we are giving, in an international document, intellectual, moral and material endorsement to economic fallacies and policies, stemming mainly from genuine or distorted Keynesian theories, against which the defenders of the free individualistic competitive system are fighting incessantly.

I have defined the Charter in the following manner: An international organization which, for the sake of providing a wrong solution to the British problem would, in the name of full employment, restrict international

(Continued on page 36)

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Shares.
The offer is made only by the Prospectus.

42,448 Shares Peninsular Telephone Company

Common Stock
(no par value)

Rights, evidenced by Subscription Warrants, to subscribe for these shares have been issued by the Company to its common stockholders, which rights will expire at 3 o'clock P.M. Eastern Daylight Saving Time on May 24, 1949, as more fully set forth in the Prospectus. The Company is also receiving subscriptions at the price to warrant holders from certain of its officers and employees during the subscription period for shares of common stock not subscribed for through the exercise of rights, as more fully set forth in the Prospectus.

Subscription Price to Warrant Holders
\$38 a Share

The undersigned several underwriters may offer shares of common stock acquired or to be acquired by them either through purchase and exercise of rights, or pursuant to the underwriting agreement, at prices not less than the subscription price set forth above and not more than the sum of either the last sale price on the New York Curb Exchange or the current offering price on the Curb Exchange, whichever is higher, and, in either case, an amount equal to the commission of the Curb Exchange.

Copies of the Prospectus may be obtained from only such of the undersigned as may legally offer these Shares in compliance with the securities laws of the respective States.

MORGAN STANLEY & CO.

COGGESHALL & HICKS

G. H. WALKER & CO.

May 11, 1949.

Prospects of Business Financing —The Long Range View

By ELI SHAPIRO*
Associate Professor of Finance,
School of Business, University of Chicago

Holding American corporations are getting as much equity capital relative to uses as during prosperous 1920s and rate of profits is higher than at that time, Dr. Shapiro ascribes present depressed prices of corporation shares to meagre dividends and greater retained earnings. Says this is breaking down fundamental bulwark of free enterprise, since retained earnings avoid competition with other firms for available capital. Contends, on basis of statistics alone, amount of debt capital is over-rated, and, as result of higher corporate profits and decreased interest rates, debt is less burdensome than in prewar years. Urges institutional investors increase equity holdings.

PART II

There is general agreement that the ratio of debt to equity should be small if a large volume of investment by business is to be maintained and if instability in our economy is to be reduced. Debt to be efficient must be safe and therefore bear a small amount of



Dr. Eli Shapiro

risk. The greatest bulk of risk should be borne by equity holders, since the debt holder has little chance for great gains and therefore should not be exposed to great chance of loss. It is felt that capitalists will supply funds in debt form only if the risk is small, which means that equity must increase *pari passu* with increases in debt. Thus there must be a large margin between debt and equity, thereby affording the debt a large cushion of safety. This means further that the interest charges on the debt will take only a small fraction of probable income.

Debt charges represent a prior claim to income. Therefore the lower the debt charges in relation to probable income, the less chance there is that debt charges cannot be met. Conversely the greater the amount of debt in relation to capital funds, the greater will the debt charges be in relation to probable income.

The excess use of debt is dangerous for two reasons. First, it may be one factor which initiates changes in the level of economic activity; and second, debt aggravates business declines after a downturn starts for whatever reasons that caused the downturn.

One main feature of a depression is a decline in business investment. It may be true that excessive use of debt by business firms causes capitalists to curtail the supply of funds they lend to business when the debt-to-equity ratio rises, thereby reducing the protection of their debt. This decline in funds would cause investments to be curtailed by business because of the lack of funds. The decline in investment is proliferated through the economy by the "investment multiplier," thus leading to declining prices, employment and national income. In general, it is difficult to assess this explanation of the business cycle because it is dependent upon two specific assumptions. They are first that there will be an insufficient supply of investment funds forthcoming when the ratio of debt to equity increases. The second assumption and probably the least tenable is that the downturn in business activity associated with a decline in investment is caused by an inadequate supply of funds to finance the private investment requirement of the business community. A greater weight should probably be placed upon the decline in business activity which stems not from a

shortage in the supply of funds but from a decrease in the demand for funds by the business community which does not see profitable investment possibilities.

Even if we abandon the notion that a rising debt-equity ratio is an initiating cause of the business cycle, we certainly do know that a high debt-equity ratio is an aggravating factor in the down swing. Assume that for some reason or reasons a decline in economic activity sets in. Debt is dangerous because it is a fixed cost which must be paid since the creditor has the legal right to take appropriate legal action. Thus foreclosures and/or bankruptcy proceedings ensue which causes distress selling, thereby aggravating the deflation and leading to more pessimistic anticipations of the future. The same is true for short-term debt, as banks do not renew loans, or even worse, call outstanding ones, thereby similarly aggravating the deflation.

Sources and Uses of Corporate Funds, 1921-1948

In order to avoid discussing business financing in terms of absolute figures and to gain historical insight into the methods of business financing, some rough approximations of sources and uses of corporate funds were developed from 1921 to date. Changes in the book value of inventories and plant and equipment expenditures reflect the principal uses of funds. The sources of funds are divided into two main categories, internal and external. Gross corporate savings (internal source of funds) consist of retained net profits plus depreciation reserves and depletion allowances; bank loans and new capital securities issues (stocks and bonds) comprise the funds raised outside of the business.

At the moment there is a widespread concern over what is known as the shortage of equity capital. Proponents of this line of reasoning point to the inactivity in the stock market as a symptom of the disease. Historically the major source of funds to American corporations has been retained earnings and depreciation reserves and depletion allowances. In the period 1926-1929 about 70% of corporate uses of funds were obtained internally. The same proportion was supplied from the same source in the postwar years 1946-1948. Thus American corporations are getting about the same amounts of equity funds relative to uses as during the prosperous 1920's.

Since profits are supplying business corporations with their equity funds we should look into this subject. The stability of the share of the national income going to profits is noteworthy; reported profits after taxes were about 9.3% of national income in 1933 compared to 9.6% in 1929. There is at present a good deal of discussion about the size of corporate profits. In the main it is argued that the figures on reported cor-

porate profits are overstated by the inclusion of inventory profits and the use of depreciation charges based upon the original cost of the asset rather than current (higher) replacement costs. In order to compare current profits with some representative year, 1929 was chosen. The inventory profits were removed from the figures and depreciation charges in 1948 were increased by 65% reflecting the change in the Bureau of Labor Statistics wholesale price index of manufactured goods in 1948 compared to 1929. After making these adjustments to reduce the profit figures reported by the Department of Commerce, our figure for "adjusted" profits before taxes was 2.3 times larger in 1948 than in 1929. "Adjusted" profits after taxes were 20% higher than they were in 1929. I might add that the figure for "adjusted" profits is understated since it does not take account of the enhanced efficiency of the higher cost capital equipment and plant. It appears that current profit levels are sufficiently high to enable corporations to obtain equity funds at about the same ratio to uses as was true in the late 1920's

Less Dividend Distribution

One point should stand out. In the process of obtaining equity funds through retained earnings in the postwar years, corporations have been forced to reduce their dividend distributions. In the late twenties, about 70% of net profits were disbursed in dividends compared with a dispersal ratio of 35% of net profits in the years 1946-1948. No doubt this lower dividend distribution ratio is partly responsible for the low level of stock prices.

One thing that should be stressed is that when business obtains its equity funds by plowed back earnings it is breaking down a fundamental bulwark in a system of free enterprise. A virtue of free enterprise is that decisions as to how much and what kinds of output shall be produced are guided by the market (price) mechanism. The market system reflects the aggregate of individual demands as well as the aggregate of individual suppliers. Price is therefore a reflection of social values and serves as a beacon to guide the efforts and resources of our economy to produce the things society wants. For example, a rising price for a commodity indicates that society's demand is not being met by the existing use of the community's resources. Higher profits in that industry will serve to attract additional resources into the industry thereby expanding output and thus meeting the wants of the community.

When a corporation retains its earnings for reinvestment in the business, the board of directors determine how part of the nation's resources are allocated. Since the decision to reinvest may not be made on the basis of alternate profit opportunities in the

(Continued on page 35)

Results of Poll Constitute Severe Indictment of NASD

(Continued from page 3)

(RETURNS FROM NON-MEMBERS OF NASD)

Total ballots returned	196
(1) 5% "Yardstick":	
Favoring	23 or 11.7%
Opposed	152 or 77.6%
No opinion	21 or 10.7%
(2) Questionnaire for Reports on Spreads:	
Favoring	20 or 10.2%
Opposed	160 or 81.6%
No opinion	16 or 8.2%
(3) Examination of Books and Records Where Neither Complaints nor Charges Are Pending:	
Favoring	10 or 5.1%
Opposed	173 or 88.3%
No opinion	13 or 6.6%
(4) NASD Trial System:	
Favoring	7 or 3.6%
Opposed	180 or 91.8%
No opinion	9 or 4.6%
(5) Rule Forbidding Discount to Non-Members:	
Favoring	6 or 3.1%
Opposed	182 or 92.8%
No opinion	8 or 4.1%
(6) Should Maloney Act Be Repealed?	
Favoring	156 or 79.6%
Opposed	22 or 11.2%
No opinion	18 or 9.2%

Concluding Comments by Dealers On Effect of "5% Mark-Up" Philosophy on Small Business

We present now the last of the comments made by dealers relative to question No. 4 which appeared on the reverse side of the ballot and is reproduced herewith:

"(4) What effect, if any, do you think the NASD's '5% Mark-Up' philosophy has on the market for securities of the smaller corporations of the country?"

The initial group of such expressions appeared in our issue of April 14 and others were carried in subsequent issues. While on the subject, it is pertinent to observe that, beginning with next week's issue we shall publish remarks submitted to us on the returned ballots concerning other phases of the NASD. With reference to the comments carried below, it should be explained that some firms elected to affix their signatures and others replied anonymously. With respect to the former, we consider it a matter of fairness not to reveal their identity as time does not permit our obtaining specific permission to do so. Where the comment was made anonymously, this is indicated by the symbol (*) appearing at the end of the statement.

LITTLE ROCK, ARK.

Creates a hardship to make a more liquid market for these small corporations.

LONG BEACH, CALIF.

We believe the 5% mark-up idea is a good thing for business but that it should be used as a guide only. In the case of a complaint by a customer that some dealer had charged too much, the investigating committee could use the 5% as a basis for determining whether the customer had just cause for his complaint.*

SMALL CALIFORNIA TOWN

Practically closed the door to them in the issue of new securities.

SMALL CALIFORNIA TOWN

Unfavorable.*

NEW ORLEANS, LA.

Detrimental.*

DETROIT, MICH.

Very bad.*

ST. LOUIS, MO.

Undoubtedly hurts their markets.*

SMALL NEW JERSEY TOWN

The expenses involved are too great for a 5% mark-up.

SALT LAKE CITY, UTAH

Very little from what we see.

*Commented Anonymously.

(Continued on page 30)

*This is the second and concluding paper by Dr. Shapiro on Prospects of Business Financing. The first paper appeared in the "Chronicle" of April 21, 1949.

COMING EVENTS

In Investment Field

May 14-15 (San Francisco, Calif.)
San Francisco Security Traders Association Annual Outing at Mt. Diablo Country Club.

May 16-17, 1949 (Hot Springs, Ark.)
Spring meeting of NASD Board of Governors and Advisory Council at The Homestead.

May 17, 1949 (Pittsburgh, Pa.)
Pittsburgh Securities Traders Association annual outing at South Hills Country Club.

May 18-21, 1949 (White Sulphur Springs, W. Va.)
Investment Bankers Association Spring Meeting of the Board of Governors at the Greenbrier.

May 20, 1949 (Baltimore, Md.)
Baltimore Security Traders Association annual outing at the Hillendale Country Club.

May 23, 1949 (Chicago, Ill.)
Association of Stock Exchange Firms' members assemble en route to spring meetings.

May 24-28, 1949 (Denver, Colo.)
Association of Stock Exchange Firms spring meeting in Denver and Salt Lake City.

May 27, 1949 (New York City)
Toppers Annual Outing at Rock Springs Country Club, West Orange, N. J.

May 24, 1949 (New York City)
New York Society of Security Analysts annual meeting and election at Schwartz Restaurant.

June 3, 1949 (Chicago, Ill.)
Bond Club of Chicago annual field day at Knollwood Club, Lake Forest, Ill.

June 3, 1949 (Connecticut)
Security Traders Association of Connecticut annual summer outing at Wampanoag Country Club, West Hartford, Conn.

June 3, 1949 (New York City)
Bond Club of New York 25th Annual Field Day at Sleepy Hollow Country Club, Scarborough, N. Y.

June 6, 1949 (Chicago, Ill.)
Chicago Stock Exchange annual election.

June 6-7, 1949 (Cincinnati, Ohio)
Municipal Bond Dealers Group Annual Spring Party. Cocktail party for out of town guests June 6th; outing June 7 at the Kenwood Country Club.

June 9, 1949 (Boston, Mass.)
Boston Securities Traders Association 30th Annual Outing and Golf Tournament at the Weston Golf Club, Weston, Mass.

June 10, 1949 (Los Angeles, Calif.)
Bond Club of Los Angeles field day and outing at the Bel-Air Country Club.

June 10-12, 1949 (Minneapolis, Minn.)
Twin City Security Traders Association Summer Party at Gull Lake.

June 10, 1949 (New York City)
Municipal Bond Club of New York Field Day at Sleepy Hollow Country Club.

June 15, 1949 (Minneapolis, Minn.)
Twin City Bond Club annual picnic at the White Bear Yacht Club.

June 17, 1949 (Boston, Mass.)
Municipal Bond Club of Boston Annual Outing at the Concord Country Club, Concord, Mass.

June 17, 1949 (Detroit, Mich.)
Bond Club of Detroit annual outing at the Grosse Ile Golf and Country Club.

June 17, 1949 (New Jersey)
Bond Club of New Jersey An-

nual Field Day at Rock Spring Club, West Orange, N. J.

June 21-24, 1949 (Canada)
Investment Dealers Association of Canada 33rd annual meeting at Minaki Lodge, Ontario.

June 24-26, 1949 (Los Angeles, Calif.)
Security Traders Association of Los Angeles annual spring party at the Arrowhead Springs Hotel.

June 24, 1949 (New York City)
Investment Association of New York annual outing at the Westchester County Club, Rye, N. Y.

June 24, 1949 (Toledo, Ohio)
Bond Club of Toledo 15th annual outing at Inverness Country Club.

June 25, 1949 (Chicago, Ill.)

Bond Traders Club of Chicago annual summer outing at the Nordic Hills Country Club.

June 28, 1949 (Detroit, Mich.)

Securities Traders Association of Detroit and Michigan annual summer party at the Lochmoor Club, Grosse Pointe Woods, Mich.

June 28, 1949 (Omaha, Neb.)

Nebraska Investment Dealers Bond Club spring frolic at the Omaha Country Club, to be preceded by a cocktail party June 27 at the Omaha Athletic Club in honor of out-of-town guests.

Sept. 9-11, 1949 (Oregon)

Pacific Northwest Group of the Investment Bankers Association

1949 meeting at the Gearhart Hotel, Gearhart, Oregon.

Oct. 5-9, 1949 (Colorado Springs, Colo.)

National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Curlette & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—John P. Higley has become associated with Curlette & Co., Inc., Chamber of Commerce Building.

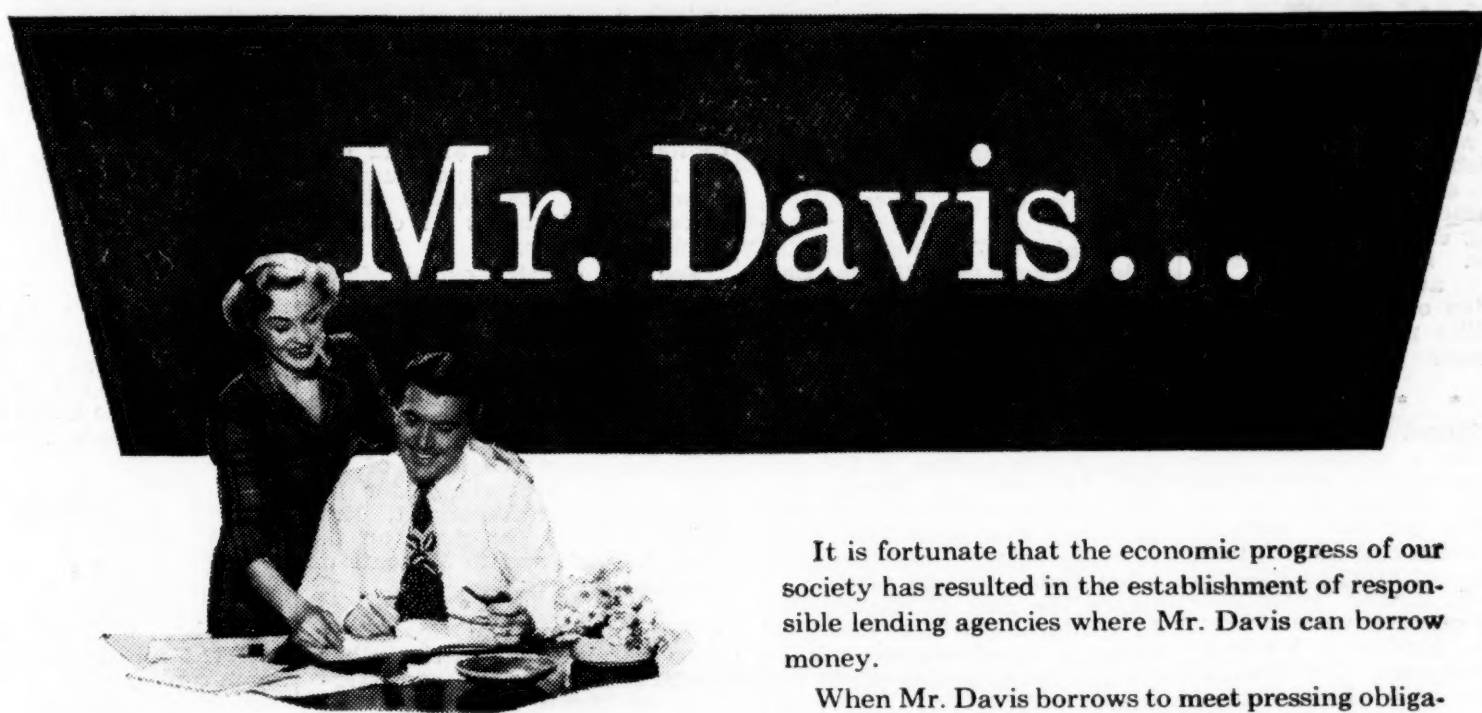
Colvin, Mendenhall & Co.

SAN FRANCISCO, CALIF.—Colvin, Mendenhall & Co., 220 Montgomery Street, is resuming the investment business. Principals of the firm are Ernest D. Mendenhall, Jr. and Donald L. Colvin. Mr. Colvin will be in charge of the firm's office at 218 North Canon Drive, Beverly Hills, Calif.

With Ralph Fordon Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Charles B. Toole has become associated with Ralph Fordon & Co., Penobscot Building



Mr. Davis...

MR. DAVIS is faced with the difficult task of stretching a moderate income to meet normal living costs and family emergencies.

But, like people in the same neighborhood, another town, or a distant state, the Davis family may find occasions when their income and savings are not large enough to cover their obligations. Merchants, tradesmen and professional men who provide goods and services are certainly entitled to payment when due.

It is fortunate that the economic progress of our society has resulted in the establishment of responsible lending agencies where Mr. Davis can borrow money.

When Mr. Davis borrows to meet pressing obligations and repays his loan out of income he has earned, he is putting his indebtedness on a business basis. He has thus protected one of the greatest assets in modern family life—his good credit standing in his community.

Household Finance Corporation and its subsidiaries operate with 474 offices throughout the United States and Canada. Loans are made primarily for the purpose of helping people get out of debt. 82% of our customers borrow to pay family debts already contracted.

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HOUSEHOLD FINANCE

Corporation



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Illinois Brevities

A group of underwriters, headed by Merrill Lynch, Pierce, Fenner & Beane of New York, N. Y., and including, among others, the following Chicago bankers, on April 13 publicly offered 200,000 shares of Illinois Power Co. 4.70% cumulative preferred stock (par \$50) at \$51.65 per share, plus accrued dividends from April 19, 1949: A. C. Allyn & Co. Inc.; Bacon, Whipple & Co.; A. G. Becker & Co., Inc.; William Blair & Co.; H. M. Bylesby & Co. (Inc.); Central Republic Co. (Inc.); Julien Collins & Co.; Farwell, Chapman & Co.; Harris, Hall & Co. (Inc.); The Illinois Co.; Kebbon, McCormick & Co.; and Mullaney, Wells & Co. The net proceeds are to be used for the payment of short-term bank loans made for financing construction expenditures and the balance for new construction.

The Chicago bankers participating in the public offering on April 13 of an issue of \$50 million Commonwealth Edison Co., 3% sinking fund debentures due April 1, 1999, were Bacon, Whipple & Co., Blunt Ellis & Simmons and Julien Collins & Co. The debentures were priced at 101.30% and accrued interest. The net proceeds will be added to working capital for ultimate application toward the cost, estimated at approximately \$340 million of gross additions to the utility properties of the company and its subsidiaries.

Halsey, Stuart & Co. Inc., on May 5, headed a group of underwriters who publicly offered an issue of \$12 million Westchester Lighting Co. general mortgage bonds, 3% series due May 1, 1979, at 102.806% and accrued interest. Other Illinois bankers participating in this offering were: Julien Collins Co., Mullaney, Wells & Co. and Patterson, Copeland & Kendall, Inc.

On May 5, Halsey, Stuart & Co. Inc. (as sole underwriter) also publicly offered \$2,750,000 Cambridge Electric Light Co. 25-year 2 7/8% notes, series A, due 1974, at 100.62 1/2 and accrued interest from April 1, 1949.

In addition, Halsey Stuart & Co. Inc. headed an underwriting syndicate that publicly offered an issue of \$3,300,000 Arkansas Power & Light Co. 3 3/8% sinking fund debentures due 1974, at 102 1/8% and interest. Mullaney, Wells & Co. was also included in the group of 13 underwriters who participated in this offering.

Halsey, Stuart & Co. Inc. also headed two other groups of underwriters who offered the following equipment trust issues: Illinois Central RR. 2 1/4% equipment trust certificates, series DD, at prices to yield 1.35% to 2.525%, according to maturity; and New York Central RR. 2 3/4% equipment trust certificates, 1949 series, at prices to

yield 1.50% to 2.85%, according to maturity.

Included in the nationwide group of approximately 200 underwriters who on May 4 marketed 1,500,000 shares of Pacific Gas & Electric Co., 5% redeemable first preferred stock, series A (par \$25) at \$26.75 per share and dividends, were the following Chicago investment bankers: A. C. Allyn & Co., Inc.; Bacon, Whipple & Co.; A. G. Becker & Co. Inc.; William Blair & Co.; Blunt Ellis & Simmons; Central Republic Co. (Inc.); Julien Collins & Co.; Farwell, Chapman & Co.; Harris, Hall & Co. (Inc.); The Illinois Co.; Kebbon, McCormick & Co.; and Mullaney, Wells & Co.

Among the participants in the public offering on April 26 of \$40 million National Distillers Products Corp. 25-year 3 1/4% sinking fund debentures due 1974, at 101.31% and accrued interest, were the following Chicago banking houses: A. C. Allyn & Co. Inc.; A. G. Becker & Co. Inc.; H. M. Bylesby & Co. (Inc.); Central Republic Co. (Inc.); Bacon, Whipple & Co.; William Blair & Co.; the Illinois Co.; Ames, Emerich & Co., Inc.; Julien Collins & Co. and Sills, Fairman & Harris, Inc. The net proceeds will be used to prepay short-term bank loans and the balance, together with other funds, will be used to finance the cost of construction by National Distillers Chemical Corp., a wholly-owned subsidiary, of the metallic sodium and chlorine plant at Ashtabula, Ohio.

A. C. Allyn & Co., Inc., Bacon, Whipple & Co., Blunt Ellis & Simmons, John W. Clarke, Inc., Paul H. Davis & Co., Farwell, Chapman & Co., Kebbon, McCormick & Co., and Straus & Blosser on April 26 participated, together with others, in a two-fold offering of 633,296 shares of Mississippi River Fuel Corp. common stock, of which 327,610 shares were for the account of the Fuel Corporation and 435,282 shares for the account of United Gas Corp. The latter part was underwritten at \$30 per share, while the 327,610 shares were offered to Fuel common stockholders at \$27.25 per share, the rights for which expired on May 9, 1949.

The change in name of City Ice & Fuel Co., Chicago, to City Products Corp., which was approved by the stockholders on April 21, became effective immediately. Harry Strong was promoted to Chairman of the

Board, and William J. Sinek was reelected President.

The offering of 104,285 shares of Minneapolis Gas Co. common stock, par \$1, to its common stockholders of record April 20, 1949, at \$11 per share was underwritten by a group of nine underwriters, which included A. C. Allyn & Co., Inc. The rights expired on May 4, 1949.

Included in the group of investment bankers who on April 13 publicly offered \$50 million C.I.T. Financial Corp. 2 3/4% debentures due April 1, 1959, at 99.35% and accrued interest from April 1, 1949, were A. C. Allyn & Co. Inc. and A. G. Becker & Co. Inc., both of Chicago.

On April 12, the stockholders of United Drill & Tool Corp. approved a proposal to change the par value of the class B stock from \$1 to \$10 per share, effective as of the same date. This change was effected by the elimination entirely of the "paid-in capital" account of \$189,062 and the reduction of "earned surplus" account by \$4,288,491. There were 497,506 shares of class B stock outstanding.

For the quarter ended March 31, 1949, United reported a net profit after taxes of \$295,400, equal to 92 cents per class A share and to 50 cents per class B share, compared with a net of \$338,700 (after transfer of \$62,500 to a special reserve against anticipated increased cost of replacing old properties), for the quarter ended March 31, 1948, equal to \$1.05 per share on the class A stock and to 58 cents on the class B stock.

Central Republic Co. (Inc.) also was included in two other underwriting groups—one offering on April 20 an issue of 200,000 shares of \$2.20 preferred stock, without par value, of the Connecticut Light & Power Co. at \$52 per share and dividends, and the other offering on May 5 an issue of \$50,000 shares of Rochester Gas & Electric Corp. 4 1/4% preferred stock, series G, par \$100, at \$102 per share and dividends.

Goldsmith Bros. Smelting & Refining Co., Chicago, has placed privately through A. C. Allyn & Co., Inc., an issue of \$750,000 4 1/2% sinking fund debentures due March 1, 1959.

Harris, Hall & Co. (Inc.) and Bacon, Whipple & Co., together with others, on April 27 publicly offered 208,373 shares of common stock (no par value) of Sharp & Dohme, Inc. at \$26 per share. Part of the net proceeds will be used to pay for the construction of a new research laboratory, estimated to cost \$4 million when fully equipped, at the company's West Point, Pa., plant, and the balance will be added to the company's general funds.

Beatrice Foods Co., Chicago, reports net profit for the fiscal year ended Feb. 28, 1949 of \$4,806,961, compared with \$3,471,956 for the preceding year. This is equivalent after provision for

preferred dividends to \$9.01 per share on 511,792 shares of common stock outstanding, compared with \$6.39 for the previous year. Sales of the latest fiscal year reached a record total of \$192,199,437, an increase of \$10,483,579, or 5.77% over sales for the preceding year. Net working capital of the company as of Feb. 28, 1949 was \$19,006,957, as compared with \$16,430,554 at the end of the preceding fiscal year, an increase of \$2,576,403.

Included in the group of investment bankers who on April 20 publicly offered 300,000 shares of San Diego Gas & Electric Co. 4 1/2% cumulative preferred stock, par \$20, at \$20.45 per share and dividends, was H. M. Bylesby & Co. (Inc.)

The sales of National Tea Co., Chicago, for the four weeks ended April 23, 1949, amounted to \$21,246,667, as compared with \$20,363,987 for the corresponding period last year and \$21,279,654 for the four weeks ended March 26, 1949.

Jewel Tea Co., Inc., Barrington, reported that its retail sales for the four weeks ended April 23, 1949, were \$12,824,800, or 13.7% over the same weeks of 1948.

On April 21, A. G. Becker & Co., Inc. and Bacon, Whipple & Co. participated in the public offering of \$16,677,000 Rochester Gas & Electric Corp. first mortgage 3% bonds, series L, due 1979, at 100.59% and interest. The group of underwriters, headed by Lehman Brothers, was comprised of 16 investment houses.

The directors of Television Fund, Inc., Chicago, on April 25 declared a dividend (No. 2) of seven cents per share on the common stock, payable May 16 to holders of record May 5. The preceding payment was an initial dividend of ten cents per share paid Feb. 15.

Blunt Ellis & Simmons also participated on April 21 in the public offering of 70,000 shares of Merck & Co., Inc., \$4 cumulative convertible second preferred stock, without par value, at \$102.75 per share and accrued dividends.

Net income of Granite City Steel Co., Granite City, for the year ended Dec. 31, 1948 was \$3,267,707, or \$8.54 per share, after all charges, including Federal income taxes, and after an appropriation of \$650,000 for contingencies. Before contingencies, earnings per share were equal to \$10.24, which compares with \$5.08 for 1947. For the quarter ended March 31, 1949, net amounted to \$821,018, after taxes and reserves, or equal to \$2.15 per share, against \$812,097, or \$2.12 per share, for the corresponding period in 1948.

William Blair & Co., of Chicago, also was included in the group of investment bankers who on April 13 publicly offered \$10 million first mortgage bonds, 3% series due 1979, of the Ohio Public Service Co. at 100.75% and interest.

The operation of Thor Corp., Chicago, in 1948 resulted in sales of \$35,844,985 and net profit of \$2,515,404, equivalent to \$7.14 per share on the 352,187 shares outstanding at Dec. 31, 1948. This reflects the purchase and retirement of 88,723 shares authorized in October, 1948. In 1947, net sales were \$34,461,705 and net profit \$3,456,720, or \$7.84 per share on the shares then outstanding. Current assets as of Dec. 31, 1948 were \$8,544,754 and current liabilities \$2,119,912, a ratio of 4.03 to 1, as compared with current assets of \$8,817,832 and

current liabilities of \$3,083,384, a ratio of 2.86 to 1 on Dec. 31, 1947. Sales for the quarter ended March 31, 1949, as reported to the SEC, amounted to \$4,923,034, against \$9,225,589 in the corresponding period of last year.

Harris, Hall & Co. (Inc.) on May 6 participated in the public offering of \$10 million Kansas Power & Light Co. first mortgage bonds, 2 3/4% series due 1979, at 101.50 and accrued interest from April 1, 1949.

Dempsey & Co. and Patterson, Copeland & Kendall, Inc., both of Chicago, on April 13 participated in the public offering of \$2 million Mississippi Power Co. first mortgage bonds, 3% series due 1979, at 100.50% and interest.

Other Illinois firms reported earnings per common share for the latest fiscal year as follows: Allied Gas Co., \$1.11 (against a deficit in the preceding year); American Buslines, Inc., \$2.17 (against \$2.15); Chicago, Burlington & Quincy RR., \$16.44 (against \$16.23); Domestic Credit Corp., 49 cents per A. B common share (against 33 cents, before special charge equivalent to 14 cents per share); Ekco Products Co., \$2.91 (against \$3.29); The Fair, Chicago and Oak Park, \$3.34 (against \$3.22); The Muter Co., \$1.61 (against \$1.70); The Omnibus Corp., deficit of 39 cents per share (against net profit of \$1.16); Parmelee Transportation Co., net profit of \$1.42 per share (against \$1.03); Pullman, Inc., \$3.18 (against \$2.38); Swift International Co., Ltd., 72 cents (against \$1.86); and Wieboldt Stores, Inc., \$2.02 for the year ended Jan. 29, 1949 (compared with \$3.37 for 27 weeks ended Jan. 31, 1948, and \$4.22 for fiscal year ended July 26, 1947).

Apgar, Berry V.-Ps. of Harriman Ripley Co.

Joseph P. Ripley, Chairman, and Pierpont V. Davis, President, of Harriman Ripley & Co., Inc., 63 Wall Street, New York City, an-



LeRoy H. Apgar Harold J. Berry

nounced, following a meeting of the Board of Directors, that LeRoy H. Apgar and Harold J. Berry have been elected Vice-Presidents.

Mr. Apgar entered the investment banking business in 1916 when he joined the staff of The National City Company. He continued with that company until he joined Harriman Ripley at its formation in 1934. He has specialized in the municipal end of the business and has been Manager of the Municipal Department since 1939.

Mr. Berry has been with Harriman Ripley since his graduation from the University of Pennsylvania (Wharton School of Finance) in 1935. He served with the Navy in various combat areas during the war, earning the rank of Lieutenant-Commander. He was appointed Manager of the Corporate Buying Department of Harriman Ripley in February, 1947.

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Strengthening Our Economy

By LEON H. KEYSERLING*

Vice-Chairman, Council of Economic Advisers

Asserting business, labor and government, in cooperation, can maintain stable and prospering economy, President's economic counselor expresses confidence, despite adjustments, there need be no serious depression. Looks for greatly increased national income and sees, in broader nationwide perspective, hope private enterprise system will bring prices, wages and other incomes into relationships which will keep economy running at high speed. Stresses importance of sound business psychology as stabilizing factor and says government is ready by legislative policy to act when careful analyses shows danger of depression.

The general theme suggested for this afternoon is "The Administration's Economic Program." Allotted time obviously will not permit detailed or even general discussion of all the matters which might be classified under this topic. But this is fortunate, because the compul-

sions of brevity plus my own inclinations may lead to an effort more useful to a meeting of this kind than a tedious re-statement of known facts and familiar proposals. That effort will be to highlight a few broad purposes and methods in the hope of broadening a few areas of common understanding and agreement.

For it is mainly by broadening its areas of agreement that our American society, adjuring dogmatic blueprints, solves its problems pragmatically as they arise and maintains the experimental and flexible temper which has enabled free people to outdo all others. Never was the pursuit and achievement of such agreement through improved understanding more imperative than today. Incomparably strong in our resources and skills, our material or economic progress is not jeopardized by the almost insurmountable handicaps which confront the people of many other lands. Our prosperity and security are threatened, now or in future, only to the degree that misunderstanding or discord prevent us from following an agreed-upon course of action along practical lines.

The field in which these broader agreements should first be sought, in my judgment, covers the relationship between business and government. For in the successful working-out of this relationship will be found most of the answers to the central questions of our age: How can our enterprise system remain sufficiently free to preserve its dynamic quality without being so unrestrained as to encourage the traditional ravages of the business cycle? How can government make its necessary contribution towards stability and security without undue sacrifice of individual or localized initiative? If business and government can blend their respective and mutual efforts in a manner which maximizes the effectiveness of both by answering these questions satisfactorily, then we shall steer a safe middle course between the dangers of absolutistic freedom and the deadliness of absolutistic security.

True Attitude of Government

The main barrier to this happy blend is that many leaders in business life do not sufficiently understand the true attitude of government, and many leaders in government affairs have not sufficiently understood the true attitude of business. If there is

*An address by Dr. Keyserling at the Third Meeting of Institute of Trade and Commerce Professions, New York City, April 27, 1949.



Leon H. Keyserling

any contribution that I can make at this gathering of businessmen and business advisers, it consists in attempting as a government official to advance to the business world my own personal feeling concerning broad areas of agreement between business and government. This may prove helpful to the business community and if someone in that community will attempt the same task from a different perspective, we may indeed make progress together.

First of all, business and government must certainly be in agreement as to the basic objectives of our economic system. These objectives are, operating under the free and flexible decisions of peacetime and not under the forced draft of wartime pressures, to achieve over the long pull the highest levels of production and reward for production that our resources permit without squandering these resources, and to achieve job opportunities for those adults who are anxious to work and able to do useful work. Whether we call this a condition of full employment or maximum employment or by some other name is relatively immaterial. Moreover, there is undoubtedly agreement between business and government that the achievement and maintenance of this condition depends not upon standing still, but rather upon growth from year to year. With improved technologies, new inventions, and a growing labor force, both production and distribution of goods must increase steadily or unemployment will increase steadily.

As a corollary to this, while we recognize that there must be some minor ups and downs in economic activity if enterprise is to retain its dynamic character, we can and must safeguard our system and our institutions from the extreme ravages of the traditional business cycle. Business and government surely agree that we cannot afford a depression at home, and that we cannot dare to risk one in view of our world position. This much is essential for the internal preservation of our traditional economic and political freedoms as well as for our world security. So long as we retain a reasonable measure of economic opportunity for the average citizen, so long as we move progressively toward the abolition of pressing want and obvious discrimination, so long as we continue to achieve the measure of economic prosperity and growth which our resources and skills make so clearly obtainable, then there will be no danger whatsoever that our system of private enterprise or our free institutions will be threatened either by discord from within or by any forces from without.

What Is Required for Stability

The immensity of the challenge to stabilize our economy and to promote its growth may better be appreciated by citing a few figures. If over the next ten years we can maintain the degree of stability and the rate of economic growth which our resources and our know-how entitle us to, our

total national income over the decade measured in uniform dollars will be about \$400 billion higher than if we should level off at the current rate of production. It will be about \$800 billion higher than if we should go through the traditional pattern of boom and bust and slow recovery which characterized the years from 1929 to 1939.

Business and government are also in substantial agreement, I should say, not only as to the need for striving to maintain maximum production and employment, but also as to the core requirements for this purpose. Despite over-refined distinctions and disagreements among technicians, there is more agreement than is commonly supposed that this core requirement is to maintain a workable relationship in the flow of income

between those who use it or want to invest it for additional production in order to earn still more income and those who use it or want to use it as consumers for the satisfaction of the wants and necessities of life. We must look to this flow of national income on the one hand to stimulate business expansion of production capacities up to the limits of technical feasibility, and on the other hand to provide enough purchasing power for consumers in urban and rural areas to absorb the full output.

Responsibility Mainly with Business and Labor

I think we would all agree that the main responsibility for the improved treatment of this problem of workable economic relationships does not rest with gov-

ernment. It rests mainly with our system of private enterprise, embracing the action of businessmen, workers, farmers and consumers. It rests predominantly in the area of price and wage policy because the adjustment of these two items primarily determines whether investors—both in the factory and in the field—earn enough profits to stimulate productive initiative, and whether consumers—both in the city and in the country—have enough income to buy the products as rapidly as they are produced.

It is generally acknowledged now that wages and prices no longer adjust themselves automatically in accord with the principles which Adam Smith derived from his observations of the much simpler economy of 175 years ago.

(Continued on page 38)

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Prospectus.

\$2,750,000

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25 Year 2⁷/₈% Notes, Series A, Due 1974

Dated April 1, 1949

Due April 1, 1974

Price 100⁵/₈% and accrued interest

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HALSEY, STUART & CO. Inc.

May 6, 1949.

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To mature annually \$715,000 on each May 15, 1950 to 1964, inclusive

To be guaranteed unconditionally as to payment of the par value and dividends by endorsement by The New York Central Railroad Company.

Priced to yield 1.50% to 2.85%, according to maturity

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Mutual Funds

By HENRY HUNT

A Plan for the "Middle Class"

Calvin Bullock has a new "Dividend Thrift Plan" designed for the great American "middle class." Requiring a minimum initial investment of \$500 and minimum monthly payments of \$50, the shareholder at his option may reinvest all dividends. An excerpt from Calvin Bullock's folder follows:

"Thrifty Americans recognize the value of regular accumulation of savings for specific needs and purposes. Life insurance for protection, savings bank accounts for emergency cash, and savings clubs for special purposes—these are some of the many ways people save.

"The savings of the great American 'middle class' total billions of dollars, not because the average person is able to put aside a large amount of money at any one time, but because he or she has learned that by saving small amounts at regular intervals a fund will grow to substantial size.

"So, first in the minds of Americans, where insurance and savings plans are household words, is recognition of the value of saving small amounts of wages or salary at regular intervals as a protection against the unforeseen and as reserves for special purposes and emergencies.

"But, hundreds of thousands of persons also want to share in the profits of American business through ownership of securities offering dividend income and capital increase possibilities. They want to build an investment estate which will share in the growth of American business and which affords, through wide diversification of risk, the same degree of investment protection enjoyed by many wealthy individuals and institutional investors.

"The 'Dividend Thrift Plan' offers this opportunity to the investor of moderate means (1) by providing a new and convenient voluntary security purchase plan requiring a small initial payment and regular monthly payments thereafter and (2) by affording the opportunity to own shares in **Dividend Shares, Inc.**, which will invest the funds and employ the principles of diversification of risk and constant supervision required for the protection of his investment estate."

A Primer on Bonds and Stocks

"When you buy a bond, you are lending money (with security) to the company which promises to pay a definite amount back to you on some date in the future. Meanwhile, you collect fixed interest—no more, no less. Of course, you can also sell the bond at any time.

When you buy a stock, you buy a part ownership in the company. As an owner, you share in the company's fortunes, good or bad. You receive "dividends," which depend on how much the company earns, and the value of your stock can increase or decrease.

"The difference between the two is simple. If a man borrows a hundred dollars from you to start a hot-dog stand, his business may grow into the largest restaurant in the world or he may fold up in a month. In either case, he owes you \$100 plus interest—no more, no less. And if you have security for your loan, you'll collect regardless. This is the idea of a bond.

"But if your friend sells you a quarter ownership in his hot-dog stand, then you can make a lot of money or lose your hundred depending on how he makes out. This is the idea of a stock.

"Naturally, when you buy a bond you buy the debt of a huge company rather than a little store—that is, you do if you buy a bond listed on one of the leading Exchanges. And when you buy a listed stock or many of them, you buy part ownership in one or more of the great railroad or steel or automobile or other large companies.

"Sometimes it is better to lend your money, and sometimes it is wiser to own a small part of the companies. The safest policy is to do both at all times, but to own more at times and to let the companies owe you more at other times.

"It is not always easy to tell when it is wiser to do one or the other. In fact, even to undertake it calls for full-time professional management. And to obtain such professional management, you either must be very wealthy yourself or join with others in an existing mutual enterprise which uses professional management."

—From a recent folder issued by **Distributors Group.**

Mr. Parker Comments

In his quarterly report to stockholders, William A. Parker, President of **Incorporated Investors** has the following to say:

"In our most recent report we stated that 1948 was the year in which the postwar inflationary upsurge was halted by counter-balancing tendencies. It now appears that in 1949 the price maladjustments generated during the boom are being corrected and that prices have already declined in a great many lines. Consumers have shown resistance to the purchase of goods at the levels prevailing towards the end of 1948, but seem willing to buy when prices are lowered. The liquid savings of the American people and their high personal incomes justify—and will probably generate—much larger consumer expenditures.

"During the current period of adjustment and uncertainty, employment and production remain at surprisingly high levels and it is probable that, despite further adjustments in the price level that may take place, the year as a whole will be relatively good in employment, earnings and dividends.

"It is well for the investor to bear in mind that stock prices as measured by the Dow-Jones Industrial Average are at just about the same levels as they were in the fall of 1946. And yet in the meantime general prices, wages, earnings and dividends have increased very substantially. In other words, stock prices at no time during this period rose to levels commensurate with the business activity, profits and dividends then current. Your management therefore still believes that a fully invested position in common stocks is desirable.

"A recent feature of the investment business of interest to our stockholders is the number of well-known brokerage houses which have set up special departments and are using advertisements to bring the shares of investment companies to the attention of their customers. Although the American public has already invested \$11½

billion in the shares of open-end investment companies, such as Incorporated Investors, there are still a great many persons who need the advantages investment companies offer."

"We Don't SELL Mutual Funds— We BUY Them for Our Customers"

The above caption was the gist of the remarks recently made by the head of a retail firm which, for many years, has done a large business in mutual fund shares and is near the top of the list of consistent producers of **Putnam Fund** sales. This firm's experience, its record, provide another interesting "Portrait of a Producer."

When we asked this man, "How and why have you and your associates sold The Putnam Fund for so many years?" his first remark was—"We don't sell The Putnam Fund—we buy it for our customers." Here, obviously, was an unusual twist—a different slant—on doing business. Since he's one of the old school of financial men, his words are worth listening to.

"In building our business we follow one basic policy. We believe that in order to handle successfully the investment affairs of our customers, we should, first of all, try to be competent investors ourselves. Then we must be able to comprehend precisely the investment needs of our clients—see them in relation to the whole family picture. It is essential, too, that we know how problems are being solved by wiser heads than ours. Finally—and this is important—we must realize our own limitations and know how and when we must secure help so that, in turn, we can help our customers.

"Although in the trade we are known as salesmen, we think of ourselves as professional men. And when we prescribe an investment remedy—we frequently must ask others to fill the prescription.

"It was because of this latter point that we became interested in mutual funds. Here was a practical method whereby we could have somebody else give us a lift in providing for our customers what, in many cases, we could provide ourselves at a reasonable profit."

—From "The Putnam Letter."

"Affiliated" Hits \$85,000,000

Including bank loans of \$20,000,000, Lord, Abbot's **Affiliated Fund** now has gross assets of approximately \$85,000,000, with new sales running between \$2,000,000 and \$3,000,000 per month.

Arrangements have recently been completed with J. P. Morgan & Co. and other lending banks whereby the interest rate on its borrowed money will be reduced from 2½% to 2¼% per annum for the 12 months beginning June 1, 1949.

Fund Salesmanship Lectures in Transcript

The New York Institute of Finance has published the transcripts of lectures given in the course, "Retail Salesmanship of Mutual Investment Funds." The lectures in transcript form total approximately 150 pages and are published in three volumes. The complete set of three volumes of transcripts sells for \$5.00.

The course was given by a team of 10 executives in the mutual investment fund field. The lecturers brought to the 100 investment business professionals enrolled different points of view regarding sales techniques in the investment field. The transcripts contain many "sales ammunition" paragraphs. Among the topics discussed were:

Building a prospect list; Planning for an interview; Conducting an interview; Overcoming objections raised; Closing the sale; Types of mutual investment funds; Selection of funds to fit the client's investment objectives; Principles of building a successful and satisfying career as an investment salesman.

The team of lecturers was made up as follows: Douglas K. Porteous, Mutual Investment Fund Sales Manager, Cohu & Co., Instructor in Charge; Arthur Wiesenberg, Partner, Arthur Wiesenberg & Co.; Frank L. Valenta, Vice-President in Charge of Research & Management, Distributors Group, Inc.; Louis H. Whitehead, Sole Proprietor, Louis H. Whitehead Co.; Howard S. McNair, Courts & Co., Atlanta, Ga.; Hugh Bullock, President, Calvin Bullock; Douglas Laird, Vice-President, National Securities & Research Corp.; James W. Bridges, Partner, the Keystone Co. of Boston; Vernon S. Vivian, Vice-President, Hugh W. Long & Co., Inc.; William A. Parker, President, Incorporated Investors, Boston.

Goffe-Carkner Adds Two

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Murray R. Petersen and Beverly N. Wilcox have joined the staff of Goffe & Carkner, Inc., Board of Trade Building, Kansas City, Mo.

H. R. O'Neil to Direct Forum on Investments

LOS ANGELES, CALIF.—Hubert R. O'Neil, Jr., of Santa Monica, Calif., investment company specialist for Dempsey-Tegeler & Co.,



Hubert R. O'Neil, Jr.

announces a series of forums, to be known as the "Family Forum on Investments," commencing Tuesday evening, May 10, at 8:00 p.m., at the Riviera Country Club. There is no charge for admission and the meeting is open to everyone. Mr. Fred H. Denison, of Brentwood Park, who has been associated with Calvin Bullock & Co. for 25 years, will be the first guest speaker. Calvin Bullock & Co., established in 1894, is the oldest firm managing investment funds. The subject of Mr. Denison's talk will be, "Investments for Everyone."

The objective of the forum is to provide families in the area with this excellent additional source of information about investments. Outstanding industrial and investment company executives will be guest speakers. After their talks, a period will be set aside for questions and answers. This program is in keeping with the national policy of the New York Stock Exchange and the National Association of Securities Dealers, of fully informing the people about stocks.

Wall St. Riders Open Outdoor Season

The Wall Street Riding Club begins its fourteenth outdoor ride season on Sunday, May 8, with a ride in Central Park, followed by lunch at the Tavern-on-the-Green. The club's indoor season ended on Friday, April 29, with a music ride and buffet supper at the ride headquarters, Split Rock Academy in Pelham.

Danger of Premature Convertibility Of Intra-European Currency

By PAUL EINZIG

Commenting on pressure for larger degree of convertibility of sterling, Dr. Einzig points out danger continental countries will do utmost to use and abuse any new convertibility arrangement in order to secure dollars. Warns premature resort to intra-European currency convertibility, before real values of national currencies are tested, may be fatal to European reconstruction.

LONDON, ENGLAND.—Once more, as in 1946-47, pressure is brought to bear on the British Government to agree to the application of a high degree of convertibility of sterling. This time, it is true, Britain is not pressed to make the pound convertible into dollars, except in so far as there are net import surpluses. Nor is Britain expected to plunge into convertibility unilaterally. The idea is that there should be free convertibility of currencies as between the Western European countries. An unofficial European economic conference held recently in London passed a resolution to the effect that the participating countries should adjust their currencies and then adopt intra-European convertibility. Washington views the scheme with favor, and many British experts, too, are supporting it. Most of these experts are only just emerging from the cloud under which they came in 1947 when their prophecies about the smooth working of convertibility proved to be hopelessly wrong. Human memory is short, and the prophets are apparently once more ready to gamble with their reputation.



Dr. Paul Einzig

Admittedly the risk at present is not so grave as it was when these experts urged the restoration of the convertibility of sterling in 1947. In the meantime progress has admittedly been made towards consolidation. Britain's balance of payments, though far from satisfactory, has improved considerably, and conditions have undoubtedly improved also in Western European countries. Moreover, the Marshall Plan is in operation, with the purpose of covering the greater part of the European dollar deficits. Even so, the factors responsible for the failure of sterling convertibility two years ago would not be absent in case of a repetition of the experiment.

The basic factor is the world-wide scarcity of dollars. In spite of Marshall aid, dollars are very scarce. Most Western European countries have depleted their gold reserves beyond danger point, and are anxious to secure dollars for purchases outside the Marshall Plan. For this reason, their governments would do their utmost to use and abuse any new convertibility arrangement for the purpose of securing the maximum of dollars, by fair means or by foul. Even under the existing arrangements of limited convertibility several continental governments have resorted to dubious practices in order to gain dollars at Britain's expense. Volumes could be written about the cunning devices applied to that end during the last two years. Should convertibility be extended before the scarcity of dollars is effectively relieved it would only mean that Britain and possibly one or two other countries would be landed with the burden of financing the dollar deficits of other

countries in addition to their own dollar deficits.

So long as continental governments are in urgent need of dollars there remains the temptation to secure it with the aid of unscrupulous methods. Any extension of the degree of convertibility at present in force merely increases the temptation and the opportunity for resorting to such methods. The employment of devices such as those employed by Belgium in order to secure more gold from Britain by buying up the sterling balances of third countries, or by France by reselling to the United States Australian wool and skins imported on the condition that it would be used within the domestic economy, is bound to cause bitter feeling and is, in the long run, detrimental to intra-European co-operation. Moreover, to the extent to which it benefits the countries that abuse the convertibility facilities it tends to weaken Britain's position, so that on balance Western Europe stands to gain nothing even in the short run.

Those in favor of convertibility argue that, once the exchange parities have been readjusted, it would be safe to resort to convertibility, for the balance of payments of countries which would devalue their currencies would improve. This view is based on two assumptions. The one is that the statesmen and experts concerned are in a position to guess the correct "equilibrium" exchange rate. The other is that a devaluation would in existing circumstances increase the volume of exports to a sufficient extent to make up for the decline of the proceeds per unit. Both are rather bold assumptions.

During the postwar years most European countries devalued their currencies, some of them several times. Each time it was hoped that the new parity would be the right one. Each time these hopes failed to become confirmed by subsequent experience. It is true, conditions are now more settled. Even so it remains most difficult to guess the correct parity. Some guess must be made, it is true. But it would be risky to accept that guess as the basis for convertibility. For if the guess should prove to be once more wrong then some countries are bound to pay a heavy price for it if they agree to convertibility on the basis of the new experimental parities.

If the governments concerned listen to the dictates of caution they would insist that the extension of convertibility must be preceded by an experimental period during which it could be ascertained whether the new parities could ensure a reasonable degree of equilibrium. It would be fatal to expose European reconstruction to another grave setback through another premature experiment in convertibility.

With E. E. Henkle Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—Edward A. Kemist has become associated with E. E. Henkle Investment Co., Federal Securities Building.

International Financial Problems of Our Economy

By M. S. SZYMCAK*

Member, Board of Governors, The Federal Reserve System

Noting sharp reduction in our export surplus, Federal Reserve Board Governor says it indicates rehabilitation abroad and should be welcomed, but warns trend might have undesirable consequences on domestic economy through shifts in character of exports. Points out world trade must aim not only to accomplish equilibrium but, in addition, a higher level of transactions. Looks for trade equilibrium by 1952, and warns world trade organizations will work successfully only if international economic problems are solved in way to expand and not restrict commerce.

In our international as well as in our domestic economy we are witnessing a readjustment from deficit to surplus conditions. This readjustment is an aftermath of our inflationary postwar boom. Crippling bottlenecks in production and annoying scarcities of consu-



M. S. Szymczak

mers' goods have now largely disappeared. The problem we currently confront is one of sustaining a high level of economic activity without the questionable benefit of inflationary supports. In the domestic field, the readjustment has been reflected in a softening of prices, a slight decline in industrial production, and some increase in unemployment. The backlog demand of the immediate postwar period has largely spent its force. The country's plant and equipment have been expanded and improved to meet peacetime needs. Inventory pipelines have been filled. The excess of effective demand over available supply at prevailing prices and incomes has largely disappeared. Reduction in the level of prices without substantial

decrease in consumers' incomes may be essential to avoid accumulation of supplies in excess of effective demand.

In the international field, readjustment is indicated by a sharp reduction in our export surplus. During the early postwar period the problem of backlog demand had been much more acute than in the United States; in countries more directly affected by the war, goods had been far more scarce and a sufficiently large and rapid increase in production was far more difficult to achieve. Foreign countries were anxious, therefore, to receive any amount of exports, but were unable to supply their former customers with corresponding quantities of imports. In 1948, however, the output of many war-devastated countries rose sufficiently to make it possible for them to replace shipments from the United States with domestic commodities, and at the same time to send increasing quantities of their products to us as well as to other markets. As a result, our exports declined and our imports rose.

In 1948 we exported goods and services valued at \$16.8 billion, or \$3 billion less than in 1947; on the other hand, we imported goods and services valued at \$10.5 billion, or \$2 billion more than in 1947. Our export surplus thus

declined by \$5 billion, from \$11.3 billion in 1947 to \$6.3 billion in 1948.

This decline becomes even more significant when we consider that it took place despite an increase in our average price level of about 9%. In terms of volume—that is to say, in terms of constant prices—our exports of commodities declined by about 18% and our imports increased by about 13%. Should similar changes occur in 1949, our export surplus would virtually disappear.

The most important single factor influencing our international economic relations in 1948 was the recovery progress in Western Europe. Countries in this area received in 1948 about one-third of our total commodity exports. Production in most countries which are members of the Organization for European Economic Cooperation has now reached or surpassed the prewar level. Industrial reconstruction, hastened by assistance under the European Recovery Program, has progressed to the point where the most important gaps in the need for capital equipment and raw materials have been filled. Agricultural rehabilitation, together with U. S. aid, has so improved living standards that the productivity of labor has risen almost to prewar level. As

(Continued on page 42)

This announcement is not an offer of securities for sale or a solicitation of an offer to buy securities.

May 12, 1949

592,250 Shares Potomac Electric Power Company Common Stock

Par Value \$10 per Share

Transferable subscription warrants evidencing rights to subscribe for these shares are being issued by the Company to holders of its Common Stock, which warrants expire at 3 o'clock P. M., New York Time, May 25, 1949, as is more fully set forth in the prospectus. Common Stock may be offered by the underwriters as set forth in the prospectus.

Subscription Price to Warrant Holders
\$12.50 per share

Copies of the prospectus may be obtained from such of the undersigned (who are the underwriters named in the prospectus) as may legally offer these securities under applicable securities laws.

Dillon, Read & Co. Inc.

Auchincloss, Parker & Redpath

Alex. Brown & Sons

Folger, Nolan Incorporated

Johnston, Lemon & Co.

Ferris & Company

Goodwyn & Olds

Robert C. Jones & Co.

Mackall & Coe

Robinson and Lukens

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

The Trustees of the Excelsior Savings Bank, New York, announced on May 9 the election of Francis S. Bancroft as President. Mr. Bancroft succeeds Reginald Roome who died on April 13, after having held that office for 23 years.

Mr. Bancroft is the tenth President of the bank. He has been a Trustee since 1930; in 1945 was elected First Vice-President and since then has devoted his entire time to the bank.

The Excelsior Savings Bank also celebrated its 80th anniversary of banking service May 10. It received its charter on May 11, 1869 with its first location in the historic Booth's Theatre Building, Sixth Avenue and 23rd Street. In 1922 it moved to its present address, 221 West 57th Street. Ten years ago, on the occasion of its 70th anniversary, the bank celebrated the completion of a thorough modernization and renovation of its building, which still presents its attractive white marble facade and entirely modern banking quarters.

In order to further meet the demands of the community and handle its increased deposits, which are presently the largest in its history, the bank plans to expand its facilities by the erection of an additional building adjoining to the east on 57th Street, thereby doubling the present quarters.

Guaranty Trust Company of New York announces the appointment of Maurice G. St. Germain and Joshua G. B. Campbell as Joint Managers of its Paris Office, and of Charles F. Brown as Assistant Manager of that office. All three officers have been associated with the company for more than 25 years, have served in official capacities with the Paris Office for many years, and have had wide banking experience both in the United States and Europe.

The Corn Exchange Bank Trust Company, New York, announces the appointment of William A. Frey as Assistant Vice-President, and Donald K. Lister as Assistant Secretary.

Richard L. Maloney, Jr., President of The New York Savings Bank, New York, on May 5 announced the release of the Personnel Manual entitled "Your Key to New York."

The booklet is designed to acquaint newcomers with a brief

history of the Bank and with their privileges and responsibilities.

One of the highlights of the booklet is the organization chart which broadly outlines the functions of individual departments and their relation to the overall workings of the Bank.

Arthur S. Kleeman, President of Colonial Trust Company, New York, announces the appointment of Harold Springer as Trust Officer. Mr. Springer is a former officer of the Continental Bank & Trust Company, having been connected with that institution for 18 years.

Henry S. Kingman, President of the Farmers and Mechanics Savings Bank of Minneapolis, Minn., was elected on May 13 President of the National Association of Mutual Savings Banks at its 29th annual conference being held in New York.

Mr. Kingman is well known in savings bank circles and is well qualified to take up the duties of his new position. Since 1931, Mr. Kingman has helped to shape policies of the National Association and of the mutual savings bank system at large as a member of its Council of Administration. During the last year he served as Vice-President and a member of its executive committee. He also has been active in the work of the American Bankers Association, serving as President of its savings division in 1934.

Arthur Livingston Kelley, President of the Providence Institution for Savings, Providence, Rhode Island, was elected Vice-President.

The Seamen's Bank for Savings, New York, celebrated its 120th anniversary on May 11, having first opened its doors on May 11, 1829.

The Mahopac National Bank, Mahopac, New York, has increased its common capital stock, effective April 29, from \$60,000 to \$90,000, by a stock dividend, and from \$90,000 to \$112,500 by sale of new stock, according to the May 2 Bulletin of the Office of the Comptroller of the Currency.

Eldon C. Swim, of Malden, Mass., was on May 6 elected Assistant Auditor of the State Street Trust Company, Boston, Mass. Mr. Swim has been with the bank since 1935, except for the period of his army service in World War II.

The Thompsonville Trust Company, Thompsonville, Conn., now in its 79th year, joined the Federal Reserve System on May 11 bringing to 335 the number of member banks in the First Federal Reserve District.

The First National Bank of Gate City, Virginia, has increased its common capital stock, effective April 25, from \$100,000 to \$150,000 by a stock dividend, according to the May 2 Bulletin of the Office of the Comptroller of the Currency.

John H. Klug, Vice-President and Cashier, American National Bank and Trust Company of Chicago, was elected to the office of President of the Chicago District, Illinois Bankers Association at its annual meeting held May 5, 1949. Other officers and members of the Board of Governors elected are: Vice-President—Edward A. Hintz, Executive Vice-President, South-

moor Bank of Chicago; Treasurer—Frank C. Rathje, President, Chicago City Bank and Trust Company and The Mutual National Bank of Chicago; Secretary—Margaret R. Hadley; Board of Governors: E. C. Burmeister, President, Lake View Trust and Savings Bank; Eugene W. Kasper, President, First National Bank of Cicero; William H. Miller, Vice-President, City National Bank and Trust Company of Chicago, and B. J. Schneider, Executive Vice-President, The District National Bank of Chicago.

The Citizens National Bank in Abilene, Texas, has increased its common capital stock, effective April 26, from \$250,000 to \$350,000 by a stock dividend and from \$350,000 to \$500,000 by sale of new stock, it is learned from the May 2 Bulletin of the Office of the Comptroller of the Currency.

James Allison Cozby, Vice-President and Cashier of The Fort Worth National Bank, Fort Worth, Texas, died on May 2.

J. L. Latimer, President and a director of the Magnolia Petroleum Company, has been elected a director of the Republic National Bank of Dallas, Tex.

At the special meeting of the stockholders of Walker Bank & Trust Company, Salt Lake City, Utah, held May 2, 1949, the Articles of Incorporation were amended, changing the capital stock of the company from a limit of 15,000 shares of \$100 par value to 60,000 shares of \$25 par value.

This amendment is now effective; and in accordance therewith, each share of the old \$100 par value stock is now equivalent to four new shares of \$25 par value each.

All outstanding certificates representing old stock should therefore be mailed or delivered to Mr. J. B. Christenson, Cashier, Walker Bank & Trust Company, 175 South Main Street, Salt Lake City, Utah, so the new certificates for the authorized \$25 par value stock can be issued.

Allard A. Calkins, President of the Anglo California National Bank, was appointed on May 5 President of the San Francisco Clearing House Association, San Francisco, Calif., as successor to Carl F. Wente, Senior Vice-President of the Bank of America, who has retired from office.

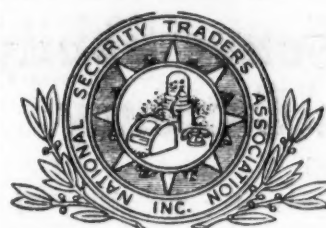
I. W. Hellman, President of the Wells Fargo Bank & Union Trust Company, was appointed to succeed Mr. Calkins in the Vice-Presidency of the Clearing House Association.

Bond, Richman & Co. Formed in New York

Announcement is made of the formation of Bond, Richman & Co. with offices at 37 Wall Street, New York City, to engage in a securities business. Principals of the firm are Max Bond, A. B. Bramnik, Henry Richman, M. W. Shapiro, and Irving Wasserman. Mr. Shapiro in the past conducted his own investment business in New York and recently was associated with Luckhurst & Co. Mr. Wasserman was also with Luckhurst & Co. in charge of the investment department.

To Join Shearson, Hammill

LOS ANGELES, CALIF.—The staff of John B. Dunbar & Co. will become associated with the Los Angeles office of Shearson, Hammill & Co., 618 South Spring Street, and as of May 16 John B. Dunbar & Co. will discontinue business. The branch office which the Dunbar firm maintained in Beverly Hills will be continued by Shearson, Hammill & Co.



CLEVELAND SECURITY TRADERS ASSOCIATION

The Cleveland Security Traders Association will hold its annual summer party at the Kirtland Country Club on Friday, June 17. Carl H. Doerge, Wm. J. Mericka & Co., President of the Association, announces that it is the Association's aim to have a minimum of 100 out-of-town dealer guests.

There will be a welcoming cocktail party on the evening of June 16.

SEATTLE SECURITY TRADERS ASSOCIATION

The Bond Traders Club of Seattle at a meeting held at the Washington Athletic Club on Friday, April 29, changed its official title and will now be known as the "SEATTLE SECURITY TRADERS ASSOCIATION."

BOND TRADERS CLUB OF CHICAGO

The Bond Traders Club of Chicago will hold its summer outing Saturday, June 25, at the Nordic Hills Country Club. Breakfast, luncheon, and dinner will be served. There will be golf, soft ball, horseshoes, and games, with prizes for each event.

Donald Muller, Harris, Upham & Co., is in charge of arrangements and entertainment.

Out-of-town guests are welcome. The fee has as yet not been established, but it is expected it will be around \$12.50 per person.

SECURITY TRADERS ASSOCIATION OF CONNECTICUT

The Security Traders Association of Connecticut announces that its annual summer outing will be held Friday, June 3, 1949, at Wampanoag Country Club, West Hartford, Conn. Subscription is \$8.00. Frank J. Murray, Day, Stoddard & Williams, Inc., New Haven, is Chairman of the outing.

Peninsular Tel. Stock Offered at \$38 Per Sh.

Peninsular Telephone Co. is offering to the holders of its common stock of record May 10, 1949, the right to subscribe for 42,448 additional shares of common stock at \$38 per share on the basis of one share for each five shares held. The offer has been underwritten by an investment banking group jointly headed by Morgan Stanley & Co. and Coggeshall & Hicks. G. H. Walker & Co. is also participating in the underwriting. The subscription rights terminate on May 24, 1949.

Concurrently with this offering the company is offering certain officers and employees the privilege of subscribing pro rata for any of the additional shares not subscribed for through the exercise of stockholders' rights. The price to the officer-employee group is the same as the price to the stockholders.

Proceeds from the sale of the 42,448 shares are to be used for betterment and expansion of the company's plant and facilities. It is estimated that the cost of items approved for construction in 1949 will amount to approximately \$3,350,000.

Upon completion of the sale of the additional shares the company will have outstanding 254,692 shares of common stock without par value. Also outstanding are 180,000 shares of preferred stock and \$4,701,000 of funded debt.

The company paid dividends of 62½ cents per share on the common stock on Jan. 1 and April 1, 1949, and has declared dividends of the same amount for each of the remaining quarters of 1949.

Peninsular Telephone Co., incorporated in 1901, operates within the State of Florida, serving about 79 communities in 10 counties located in the industrial, citrus, phosphate and resort areas on the Florida West Coast. Among the cities served are Tampa, St. Petersburg, Lakeland, Clearwater and Sarasota. The company also owns toll lines and provides toll service between all of its exchanges and between its exchanges and other telephone companies in Florida.

The company's central office equipment is completely auto-

NSTA Notes

matic and more than 85% of its approximately 286,000 miles of wire is in underground cable. Telephone stations served by the company at the end of 1948 numbered 125,717 as compared with 108,729 at the end of 1947. Operating revenues for 1948 amounted to \$7,392,656 and net income was \$1,297,230.

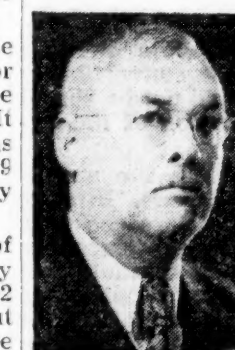
Announces Use of New Formula Plan

National Securities and Research Corporation reports on an investment timing following extensive research by Dr. F. R. Macaulay.

The National Securities and Research Corporation has announced a new formula for investment timing which it has developed since 1947 after extensive research has been made by Dr. Frederick R. Macaulay, economist and statistician. According to the announcement, the National formula investing plan can also be applied to a long-term program for institutional and individual investors whether they wish to buy selected stocks and bonds or shares in mutual fund.

Under the investment policy of First Mutual Trust Fund, a continuously supervised mutual trust fund, the management has been utilizing the National Formula Plan since January, 1948.

National Securities & Research Corporation, organized in 1930, is one of the concerns engaged in the management and underwriting of mutual investment funds created and functioning under bank trusteeship. Its investment and Research Department currently manages funds in excess of \$50,000,000.



Dr. F. R. Macaulay

Akron (Ohio) Sav. & Loan
First National Bank
Beifast, N. Y.
First National Bank
Greenville, Miss.
First National Bank
West Point, Ga.
Wayne County Savings
Honesdale, Pa.

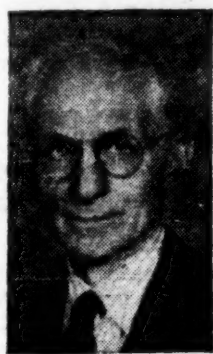
KENNEY & POWELL
NEW YORK

What Can a Monetary Commission Do?

By A. M. SAKOLSKI

In commenting on proposals for a Congressional Monetary Commission to reform the currency, as represented in a bill recently introduced in the Senate, Dr. Sakolski traces briefly history of previous efforts along same lines and concludes, despite defects in the monetary structure, such an inquiry under present political and economic conditions will not lead to any drastic reform.

Recent agitation to restore the gold coin standard in the United States and to further revise the monetary laws has led to recommendations from several sources that a national monetary commission be created by Congress to study and report on the subject. The proposition has been suggested by Mr. Winthrop W. Aldrich, Mr. Earl O. Shreve, President of the Chamber of Commerce of the United States, Thomas I. Parkinson, President of the Equitable Life Assurance Society of the U. S. and others, who deplore the defects in our present mongrel monetary structure and urgently call for remedies.



A. M. Sakolski

In line with this movement, Senators Maybank (Dem., S. C.) and Tobey (Rep., Nev.) on April 11 introduced a bill (S. 1559) in the Senate for the establishment of a bipartisan National Monetary Commission to be composed of 18 members, one-third to be appointed by the President, of whom three are to be drawn from the executive branch of the government and three from private life; another third is to be appointed by the Vice-President, of whom three are to come from the Senate and three from private life, and the remaining third are to be appointed by the Speaker of the House of Representatives, also to be divided equally from members of the House and from private life.

In view of the usual propensity of Congress to set up special committees to deal with any matter that a member may feel requires legislation, it is possible that the 81st Congress may grant their wish. However, because of the result of the recent national election, which is taken as a mandate to uphold and retain the New Deal legislation, the possibility of effecting a reversion to the old gold coin standard or of instituting fundamental reforms in our present limping currency system seems somewhat remote. Certainly, the problem cannot be definitely solved without some joint international arrangement that will lead to greater stability of currency throughout the world.

I

Monetary investigations and reports are not novel procedures either in this country or abroad. Great Britain has had a number of them over the last century and a half and both France and Germany from time to time have resorted to this method of investigation, inquiry and recommendation. In the United States, the currency question has been a perennial debate in and out of Congress, almost from the beginning of our national existence, and the halls of Congress have rung with the reasoning and oratory of statesmen seeking a method to establish what has been commonly called a "sound currency system." Outside of Congress also, commissions, organizations, chambers of commerce, and other self-appointed groups have discussed and reported on the subject. The American Bankers Association has considered the so-called currency question from the very beginning of its existence in 1875 and from time to time have presented plans

to Congress and to the nation for adoption.

Toward the end of the last century the question became uppermost in American economic and political history, and following the defeat of the Bryan free silver party, definite action was in order. A convention of a self-styled "National Monetary Commission" was held in Indianapolis early in 1897 at which 26 states and the District of Columbia were represented. After intermittent meetings and adjournments covering more than a year, it drew up and published a voluminous report, which not only set up a plan of monetary reform, but, in addition, furnished a most elaborate and complete compilation of historical and statistical data that had ever been up to that time published in the United States. Largely as a result of the Commission's deliberations, Congress on March 14, 1900 passed the Gold Standard Act, but as this did not remedy the evils of monetary instability, agitation continued for more drastic revision of the monetary system. This agitation was brought to a climax by the so-called Money Panic of 1907. The consequent determination of the nation's financial leaders, led by the Chamber of Commerce of the State of New York, to have established in the United States a sound, stable and elastic currency system, which would prevent the recurrence of the 1907 economic disaster, was soon to result in some definite Congressional move in that direction.

II

The outcome of this movement was the creation by Congress by an Act approved May 30, 1908 of a Congressional National Monetary Commission. Section 18 of the Act gave authority and instruction to the Commission as follows:

"It shall be the duty of this Commission to inquire into and report to Congress, at the earliest date practical, what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency and for this purpose they are authorized to sit during the sessions or recess of Congress at such times and places as they may deem desirable, to send for persons and papers, to administer oaths, to summon and compel the attendance of witnesses. . . . The Committee shall have the power, through subcommittees or otherwise, to examine witnesses and to make such investigations and examinations, in this or other countries on the subjects committed to their charge as they shall deem necessary."

The Commission consisted of nine Senators and nine Representatives, and was headed by Senator Nelson W. Aldrich of Rhode Island as its Chairman. It spent almost four years in deliberations, hearings, junket trips, and arguments, and, in addition, published upwards of 38 pretentious volumes, some of which had little bearing on currency or banking topics or merely constituted a reprint or rehash of previously published works. All this data may have had an educational and beneficial influence, but it put

into the pockets of assisting and collaborating economists as well as others considerable amounts of the Federal taxpayers money. When, finally, Chairman Aldrich issued the Commission's relatively brief report on Jan. 9, 1912, he proposed the establishment of a central bank, such as the Bank of England, but more particularly resembling the Reichsbank of Germany. This was to be known as "The National Reserve Association."

Without going into the details of this so-called "Aldrich Plan" and the story of the vehement arguments and propaganda of both its supporters and opponents, mention need only be made that the scheme was not adopted by Congress and failed to receive general public enthusiasm. A rift in the Republican Party resulted in the election of Woodrow Wilson as President in the fall of 1912. As a result, the new Democratic majority in Congress, not wishing to sponsor a Republican Party measure, revised the Aldrich Plan considerably and passed an Act establishing the present Federal Reserve System on Dec. 23, 1913.

It can be said that, despite the rejection by Congress of the Aldrich Plan, which proposed a single central bank instead of several district reserve banks, the work of the National Monetary Commission was of some value in putting into effect the principles originally found in the Federal Reserve System. But the author or authors of the Federal Reserve Act of 1913—and there has been a heated controversy as to who were the real instigators or authors, several claiming this credit—have assumed or at least pretended they have paid little attention to the National Monetary Commission's report or any of its publications. It is quite probable that few of them, aside from Prof. H. Parker Willis and several others who acted as monetary and banking experts, ever really read the Aldrich Report or many of its voluminous volumes and other data. The legislation establishing in the United States a central banking system undoubtedly could and would have been enacted had there never been a National Monetary Commission. The liberality of the Commission in dispensing public funds and in affording junket trips to almost all corners of the globe to its members and

their assistants is, in some respects, a hidden scandal. The principles of central banking had already been discussed and were well known to economists, statesmen and bankers before the Monetary Commission was appointed, so that its elaborate studies and publications,—most of which were probably never read by its own members or the public,—was in a way a waste of public funds. Its services could have been performed more economically and with more efficiency. Its protracted deliberations probably delayed rather than hastened the needed reform.

III

Great Britain furnishes another example in which elaborate legislative studies have been made of currency and other questions, but the British have been more direct in obtaining their objectives and have for the most part, restricted their inquiries to testimony of bankers and experts. Perhaps the best illustration of the workings and effects of such a procedure is the parliamentary investigation which led to the publication of the world's most famous monetary document, the so-called "Bullion Report of 1810." This report was made by a select committee of the House of Commons, of which Henry Thornton and Francis Turner, two renowned economists and statesmen, were members.

The Committee was appointed "to inquire into the cause of the high price of gold bullion and to take into consideration the state of the circulating medium and of the exchanges between Great Britain and foreign parts and to report the same, with their observations thereupon, from time to time, to the House." The report urged the reestablishment of the gold standard in England, i.e. the restoration of the convertibility of Bank of England notes, which convertibility had ceased in 1797, as well as other banking and currency reforms. But Parliament, due largely to the opposition of powerful political and mercantile interests, took no action on it. Not until 1821, 11 years after the Bullion Report was issued, were the recommendations adopted, and then, not to the extent as contained in the report. Moreover, as

pointed out by Edwin Cannon, Professor of Political Economy in the University of London in 1919, it is quite probable the directors of the Bank of England would have followed a policy at a propitious time to restore the convertibility of Bank of England notes after due preparations, if the British Treasury approved. Undoubtedly the Bullion Report, like the Aldrich Report of the National Monetary Commission had a great educational influence and helped to shape an improved currency system. But whether either of these documents resulted directly in bringing about the reforms ascribed to them, or were the immediate basis of making the reforms is somewhat doubtful. Monetary and other legislation arises more from conditions to be faced than from theories to be followed. It is designed in most cases to fit in with a definite environment rather than to comply with set principles.

Otis & Co. Underwrites Indianapolis Power & Light Co. Offering

The Indianapolis Power & Light Co. is offering for subscription by its common stockholders of record May 11 rights to subscribe for 107,226 additional common shares at \$25.0994 per share in the ratio of one new share for each 10 shares held. Rights expire 3 p.m. (EST) May 25. Otis & Co. have underwritten the offering.

G. C. Hollister Dies

George Clay Hollister died at his home at the age of 77 after a long illness. Mr. Hollister was a former governor of the New York Stock Exchange and later conducted an investment counselor business in New York City until his retirement in 1947.

Harold G. Barlow Joins Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)
OSHKOSH, WIS. — Harold G. Barlow has become associated with Thomson & McKinnon, First National Bank Building. He was previously with Loewi & Co.

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Prospectus.

\$10,000,000

Potomac Electric Power Company

First Mortgage Bonds, 2 7/8% Series due 1984

Dated May 1, 1949

Due May 1, 1984

Price 101 1/2% and accrued interest

The Prospectus may be obtained in any State in which this announcement is circulated from only such of the undersigned and other dealers as may lawfully offer these securities in such State.

HALSEY, STUART & CO. INC.

OTIS & CO.
(INCORPORATED)

THE ROBINSON-HUMPHREY COMPANY

BYRD BROTHERS

GREGORY & SON
(INCORPORATED)

STEIN BROS. & BOYCE

THOMAS & COMPANY

MULLANEY, WELLS & COMPANY

WM. E. POLLOCK & CO., INC.

COURTS & CO.

THOMAS L. HUME SONS
(INCORPORATED)

ROGER S. PALMER CO.

May 11, 1949

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Bank Stock Analyzer—Dec. 31, 1949—Comparative chart—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

Chicago Transit Authority—New circular on the outstanding bonds—A. C. Allyn & Co., Inc., 100 West Monroe Street, Chicago 3, Ill.

Common Stock Program for Investors—List to assist investors in revising their portfolios—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Defensive Opportunities—Study—In the current issue of "Fortnightly Market and Business Survey"—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Dividends for More Than a Decade—List of New York Curb common stock issues with long dividend records—New York Curb Exchange, 86 Trinity Place, New York 6, N. Y.

Economic Recovery of Europe and the ultimate effect upon government bonds of Great Britain, Belgium, Sweden, Netherlands, Norway and Denmark—New study—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Gold Stocks—Analysis—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is a study of the **Steel** industry, and of **Republic Natural Gas Co.**

New York City Bank Stocks—Comparison and analysis as of March 31 of 19 bank stocks—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

"Of the People, by the People, for the People"—107-page book describing the merits of tax-secured and revenue-secured bonds—John Nuveen & Co., 135 South La Salle Street, Chicago 3, Ill.

Over-the-Counter Industrial Stock Index—Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Pacific Northwest Industries—Summary—Seattle First National Bank, Second Avenue and Columbia Street, Seattle 4, Wash.

Possibilities—Discussion of current market fluctuations—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Representative Canadian Common Stocks—Tabulation of Canadian issues with brief particulars of recent earnings and prices—A. E. Ames & Co., Inc., 2 Wall Street, New York 5, N. Y.

Retail Salesmanship of Mutual Funds—Transcripts of lectures given at the New York Institute of Finance—In three volumes—\$5.00—New York Institute of Finance, 20 Broad Street, New York 5, N. Y.

Six Attractive Stocks—Data on Barber Oil, Shell Union Oil, Sutherland Paper Co., A. E. Staley Mfg., Middle South Corp., and United Gas Corp.—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Amalgamated Sugar—Analysis—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

Atok-Big Wedge Mining Co.—Circular—Bacon & Co., 256 Montgomery Street, San Francisco 4, Calif.

Central Public Utility Corp.—Card Memorandum—F. S. Yantis

& Co., 135 South La Salle Street, Chicago 3, Ill.

Chicago, Milwaukee, St. Paul & Pacific compared with **Chicago & Northwestern**—Vilas & Hickey, 49 Wall Street, New York 5, N. Y. Also available is a leaflet of **Railroad Developments** of the week.

Cooper-Bessemer Corp.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Derby Gas & Electric Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Electric Bond & Share Co.—Circular—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Federal Enterprises, Inc.—Circular—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Illinois.

Fernandina Port Authority, Fla. 4% Toll Road Revenue Bonds—Circular—Allen & Company, 30 Broad Street, New York 4, N. Y.

Food Fair Stores, Inc.—Circular—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

General Portland Cement Co.—Analysis—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Hearst Consolidated Publications, Inc.—Analysis—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

Household Finance Corporation—Annual report—Household Finance Corporation, Chicago, Ill.

Inland Steel Co.—Circular—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

Kansas City Southern Railway—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is an analysis of **Beryllium Corporation**.

Langendorf United Bakeries, Inc.—Analysis—For dealers only—Walston, Hoffman & Goodwin, 265

Montgomery Street, San Francisco 4, Calif.

Manhattan Company—Analytical study—Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Middle South Utilities, Inc.—Circular—Josephthal & Co., 120 Broadway, New York 5, N. Y.

Missouri Pacific—Circular—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Oregon Portland Cement—Late data—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

St. Lawrence Corporation and St. Lawrence Paper Mills Company—Analysis—H. M. Gartley,

68 William Street, New York 5, N. Y.

Southwestern Public Service Co.—Descriptive Memorandum—Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Tex.

Also available are descriptive memoranda on **Gulf Public Service Co.**, **Southwestern Electric Service Co.**, **El Paso Electric Company**, **Public Service Company of New Mexico**, **Texas Eastern Transmission Co.**, **Tennessee Gas Transmission Co.**, **Texas Public Service Company**, and **Arkansas Western Gas Company**.

Time Incorporated—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Stock Market Stalemate Likely to Be Extended

(Continued from page 4)

the "Commercial and Financial Chronicle" of Nov. 25, 1948 we felt that four observations were warranted and we summarize them herewith:

(1) The possibility of a further drastic decline in quotations for common stocks from current quotations did not seem likely in the immediate future. Stock prices were resting upon a generally firm statistical foundation.

(2) We found it difficult to generate any marked degree of enthusiasm for the prospects of materially improved stock prices for the near term. Any material advance in quotations would most likely be braked by the large demand for equity capital. We did not know whether tax rates were going to be raised in 1949 and if they were whether an excess profits levy would return to the statute books.

(3) We were convinced that the outcome of the election had some grave long-term significance for the status of invested capital in the United States. We felt that American investors had unexpectedly lost another major battle in the world wide assault upon the private enterprise system. We believed that the great mass of people had expressed their desire to enjoy "social gains" almost regardless of their cost.

(4) We stated, however, that we would be willing to revise our views in the direction of greater optimism under certain conditions, including the improvement in the overall position of the Western World vis-a-vis the Soviets. Most of our postwar troubles had had their basic origins in the Kremlin. A more conservative program on the domestic front than then seemed possible would be very constructive.

Revised Conclusions

Almost six months have elapsed since we expressed these views and they seem to have been warranted in the light of what has since transpired. However, we should like to revise, clarify and amend them somewhat along the following lines:

(1) Stock quotations, on an overall basis have not varied materially from their mid-November levels. The course of commodity prices has been more steeply downward and business conditions have deteriorated more rapidly than we had expected. Accordingly the shares of affected groups such as non-ferrous metals, independent motor car manufacturers, toolmakers, accessory companies, pulp and paper, textiles, railroads and many others have experienced greater declines than the averages. On the contrary, the deflation now under way is being sufficiently cushioned and braked by a multitude of factors so that capital shrinkage may be reduced and even largely offset by com-

mitments in a long list of "sheltered" groups such as the golds, the electric and gas utilities, grocery chains, drugs and pharmaceuticals, tobaccos, finance companies, certain packaged food businesses, gum and confectionery manufacturers, corn refiners, metal and glass containers and a host of high grade consumers' goods groups.

(2) The state of business has retrogressed far more than the political platform makers of last Fall had envisaged. Election "mandates" relative to higher taxes and labor legislation are accordingly impossible of fulfillment. The leftward trends which we feared in November have in part been slowed but not stopped. Washington has been more conservative than we thought because it feared to be otherwise.

(3) As we pointed out earlier in this discussion, we are entering upon a new period of Federal budgetary deficits sooner and upon a far larger scale than was foreseen last November. No change in investment policies seems indicated for the immediate future, for the momentum of decline is too great to reverse itself for some time. Nevertheless, the Federal Government faces a fiscal dilemma and its financial outlook and policies must in the long run be of primary concern to investors owning marketable securities.

Insofar as the stock market is concerned, there is a good chance that the long stalemate which has obscured the diverse trend of various component groups will be further extended. A fair number of utilities in both the electric and gas classifications should be in line for dividend increases along with a handful of "sheltered" industrial companies. This type of good news should be greatly overbalanced by a larger volume of dividend cuts or omissions in special instances such as have already occurred with respect to Armour & Co., St. Joseph Lead, National Container and Gimbel Bros. Nevertheless, the great majority of sound common stocks should be able to continue paying dividends at current rates and if we are correct in our opinion, the 1946, 1947 and 1948 lows in the industrial averages will not be broken in 1949.

Appointed Directors

CHICAGO, ILL.—W. A. Gorman, President of Link, Gorman, Peck & Co., was elected a director of Queene Anne Candy Co. at the annual meeting of stockholders. Frank S. Torgerson, Vice-President of Link, Gorman, Peck & Co., has been elected a director of United States Finishing Co.

This advertisement appears as a matter of record only and is under no circumstances to be construed as an offering of these securities for sale, or as a solicitation of an offer to buy any of such securities. The offering is made only by the Prospectus.

107,226 Shares Indianapolis Power & Light Company Common Stock

Warrants evidencing rights to subscribe for these shares are being issued by the Company to holders of its Common Stock, which Warrants will expire at 3:00 P.M., Eastern Standard Time, May 25, 1949, as set forth in the Prospectus.

Subscription Price to Warrant Holders
\$25.0994 per Share

Prior to the expiration of the subscription offer, Otis & Co. may offer and sell Common Stock at the price or prices and within the limits set forth in the Prospectus.

Copies of the Prospectus may be obtained from the undersigned in any State in which it may lawfully offer the securities.

OTIS & CO.

May 12, 1949

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Heavy selling by the Federal Reserve Banks, together with sizable switches by savings banks from the longer eligibles into the taps, is supplying the market with bank obligations. . . . Also, war loan calls and the tendency to wait for a short period, until the refunding terms are announced, have curtailed activity in the government bond market. . . . Nonetheless, conditions in the money market continue to improve and easier credit seems to be in the making. . . . However, no pronounced movement or trend in either direction is looked for until the Treasury makes known what will be offered in the mid-year financing. . . .

Gossip, rumors and reports as to what will be done in the coming operation have the market on the anxious seat but there seems to be growing support for the opinion that intermediate-term eligibles will be prominent in the impending financing. . . . Guesses as to what rate the new securities might carry, when, as and if they should be offered to the banks for the June 2s range from 1½% to 1¾%, take your pick. . . . Nevertheless, the 1¾% coupon appears to be getting most of the attention at this time. . . .

FURTHER CUT IN RESERVES LIKELY

Another decrease in reserve requirements is looked for in order to fight the forces of deflation as well as to combat unfavorable psychological conditions which are tending to aggravate the readjustment. . . . Loans will probably recede further, although the rate of decline is likely to be less severe than it has been in the last four months. . . . Inventories in many instances still have to be liquidated and this means pressure on the loan curve. . . . The demand side of the money markets would be further strengthened by the continued down-trend in loans, which should result in easier credit conditions. . . . These developments would have to be favorable to the government bond market, irrespective of what might be done to enhance the supply of eligible Treasury obligations. . . .

BROADENING OF "ELIGIBLES" INEVITABLE

An orderly government bond market has to be taken for granted, because the monetary authorities have been very definite in their statements and recent actions along these lines. . . . Therefore, an addition to the amount of government securities that can be acquired by the commercial banks is merely a question of time. . . . How this will be done is purely a matter of conjecture, because with the monetary authorities uncertainty and surprise seem to be very important and the unexpected generally happens. . . . The alternatives are well known in the money markets, so there is likely to be less surprise this time, no matter what they do in the June financing. . . .

Eligible bonds, notes, Savings Bonds and reopening of the restricted issues are the tools the powers that be have to work with, so it is just a question of choice as to which of these will be used. . . . When the decision has been made the market will then be in a position to adjust itself to the new developments. . . .

SUGGESTED PATTERN

Additions to the eligible list through the issuance of marketable obligations are considered in most quarters as the best solution of the problem the Treasury is facing. . . . At 1½% or a 1¾% eligible marketable security for maturing issues would meet most of the needs of the large and small commercial banks and should have a stabilizing influence upon the government market. . . .

If either or both of the aforementioned obligations were offered to holders of the June 2s, there would most likely be less buying of the longer eligible bonds, and with the pressure off the distant maturities, prices should settle back into a trading range, which would mean a stable market. . . .

Since there are other 2s maturing the balance of the year, a pattern for future refundings might be established in the mid-year operation. . . . If holders of the September and December 2s believe they will get similar issues to those offered in June (and the mid-year offerings are favorable) there would probably be a smaller demand for the longer-term eligibles because it will be just a matter of a few months before they would be able to get issues that would fit into their portfolio. . . .

CURRENT MARKET TREND

Out-of-town banks with savings deposits are important buyers of the longest eligible issues and they have been able to acquire this bond without pushing the price up, because of the sizable swaps that are being made out of this obligation into the restricted bonds. . . . The 2s due 1952/54 have been well taken by the larger deposit institutions and these securities are among the most active issues in the list. . . . Savings banks are giving more attention to the earlier tap bonds, with less funds going into the longest maturities at this time. . . .

It is felt that irrespective of what takes place in the June refunding, the shorter ineligibles will still be in a favorable position. . . . The 2½s due 1959/62 continue to be the bellwether of the ineligible group with indications that new money is going mainly into this security. . . .

TAXING LIFE COMPANIES SEEN

It is reported that a new tax formula will evolve soon for the life insurance companies and these concerns will have taxes to pay the Treasury for the present year. . . . Although details of what has been going on are not available it is believed the life insurance companies might become interested in a more substantial way in the future in the longer-term, higher-coupon municipal obligations. . . . Also, such a development could mean that these institutions will be inclined to retain the small amounts of the partially-exempt they now own.

Capital, Jobs and Taxes

By FRANCIS ADAMS TRUSLOW*

President, New York Curb Exchange

Mr. Truslow, in pointing out dependence of jobs and taxes on capital, emphasizes the importance of distinguishing capital from its money yardstick. Says capital, like cotton, must be grown and processed before it becomes useful, and stresses value of capital market facilities in putting capital to work. Calls attention to present decline in public investment and reduced stock exchange transactions despite high level of industrial activity and holds trend dangerous to our economy, threatening both jobs and taxable resources.

It seems to me a sure thing that the modern Atlanta is interested in Capital, Jobs and Taxes. They may be unrecognizable after I drop them; but that will be my fault not theirs. Anyway I shall talk about these three things and their dependence on each other. All are



Francis A. Truslow

essential to any economy; but it is a peculiarity of these triplets that the first gives birth to the second and both feed the third until the third gets out of hand and smother them.

I want to talk about capital, jobs and taxes because they are important; but I also have a special reason for doing so in Georgia. This is the home of a United States Senator named Walter F. George. Very few men in high office have waged as courageous a fight as he is waging to keep capital, jobs and taxes in proper balance.

Capital is a complicated sort of a thing. Hard to establish, demanding to maintain and difficult to understand. It can't be ordered around. If it is, it reacts by disappearing as fast as a covey of quail. However, if it is managed by someone who understands its power and its limitations, it does prodigious feats. On the other hand, we have all seen it turn limp in the hands of men who think it is like an oil well or a charity bazaar.

What Is Capital?

Unfortunately a great many people think that capital is a very simple thing than anyone can as-

*An address by Mr. Truslow before The Rotary Club of Atlanta, Atlanta, Ga., April 25, 1949.

semble and use for any purpose. It seems to me that one of the most prevalent reasons why capital is misunderstood is that too many think capital is merely money. Because it is measured in terms of money it has become money, mere cash, in the thoughts of the average man. If we talk about a bale of cotton there is no misunderstanding of what it is. No one confuses a bale of cotton with money, even if they know its market value.

Cotton is cotton and our minds relate it to the fields where it was grown and to the shirts in which it ends its days. We think of it in terms of what it can be used for and of what it is too frail to serve. In pods, in bales, in threads and in cloth, cotton can be converted into money; but that doesn't lead us to treat it like money. It remains cotton in our minds.

But this thing capital gets us all confused. True, it is many different things in infinite combinations, so it is somewhat more complex than cotton. But cotton too is not all the same and the expert sees the uses and the limitations of the curly strands from Peru, the long staple of Egypt and the Islands, and the upland fibres of Georgia.

Until we can think of capital as hand tools, power machines and all sorts of factories and as more than these things alone, as an organized combination of tools and training and a place to use them and a purpose for doing so, we will misunderstand it and so fail to use it to best advantage or expect of it what it can't supply.

It is unfortunate that people think of capital as the dollars by

which, for convenience, they measure it. It is unfortunate because it leads to misunderstanding and because the very measurement, which they substitute for reality, is only a rough approximation.

"Company A's capital is one million dollars," we say, "but Company B's capital is two million," we add. These statements have no real meaning. From them we learn nothing about the capital of either company. In fact they don't even tell which company has the larger capital in any real sense.

We might have said "Company A has an efficient factory, fully equipped to bottle Coca-Cola, which it is doing at a profitable price which buyers will pay; but Company B is struggling along in an obsolete factory producing button shoes at a loss—incidentally Company A has one million dollars in the business but B has two million tied up." Here are statements that tell us something about the nature and effectiveness of the capital of A and B. They describe it as dollar signs can't.

Capital Different From Money

This confusion of capital and its money yardstick produces an impression that capital and money are the same. As a result money itself is thought of as capital. Capital in the form of a busy machine is wholly different than capital lying in an idle machine, even though each machine is carried on the books at ten thousand dollars. Capital is not the book entry, but what lies behind it. In the same way ten thousand dollars in cash could not procure the busy machine. (Continued on page 25)

This announcement is not an offer to sell or a solicitation of an offer to buy these securities. The offering is made only by the Prospectus.

\$8,000,000

Indianapolis Power & Light Company

First Mortgage Bonds, 3% Series, Due 1974

Dated April 1, 1949

Due April 1, 1974

Price 101.769% and accrued interest

The Prospectus may be obtained in any State in which this announcement is circulated from only such of the undersigned and other dealers as may lawfully offer these securities in such State.

HALSEY, STUART & CO. INC.

BEAR, STEARNS & CO. OTIS & CO. R. W. PRESSPRICH & CO. STROUD & COMPANY

WILLIAM BLAIR & COMPANY

MULLANEY, WELLS & COMPANY

THOMAS & COMPANY

CITY SECURITIES CORPORATION

HAROLD E. WOOD & COMPANY

May 11, 1949

Canadian Securities

By WILLIAM J. McKAY

Political and economic pressures now mounting daily suggest an imminent crisis in the field of foreign exchange. It would appear that only the stern resolution of Chancellor of the Exchequer Cripps bars the way toward a logical solution of the currency impasse. This determination to preserve at all cost the elaborate British system of exchange restrictions and state controlled foreign trade shows a complete disregard of the lessons demonstrated by recent history. Following World War I the re-establishment of sterling at the prewar parity marked the commencement of a painful era of disinflation, mass unemployment, and loss of foreign trade. Ironically enough the desired goal of sterling respectability was not achieved until the inevitable forced devaluation in 1931 placed the pound at a level where it once more enjoyed universal confidence.

Today it is even more evident that at the present level of \$4.03, sterling is not only overvalued but in view of the current economic trend, British export prices at the current exchange valuation are becoming increasingly unrealistic. The April export figures demonstrate that under present conditions the closing of the gap is becoming a task impossible of accomplishment. Even these figures include exports effected on the basis of depreciated transferable sterling. Utilization of cheap sterling by foreign commercial arbitrageurs is thus depriving members of the sterling area of sales ultimately made against U. S. dollars.

The British official case for the maintenance of the \$4.03 pound is consequently becoming increasingly hollow. The growing traffic in transferable sterling proves in practical fashion that whereas British exports move with difficulty at the official exchange level, it is possible to find ready markets on the basis of \$3.20/\$3.40 sterling. These economic facts of life are at last receiving recognition in the United Kingdom where for the first time it is admitted that there is at least an "embryonic case" for sterling devaluation.

It is also encouraging to note that the Canadian authorities are commencing to take constructive steps to mitigate the effects of the adverse turn of the economic tide. Recent changes in the Foreign Exchange Control Board regulations suggest the intent to meet the situation in the event of the failure of Canadian exports to offset

the natural deficit in trade with this country.

With the export position of farm and forestry products becoming increasingly critical it is now essential to encourage the inflow of U. S. capital funds in order to offset the probable widening deficit in the U. S./Canadian commercial account. The restoration of the privilege of registration with the FECB of Canadian internal bonds, which was withdrawn in 1936 prior to the upward revaluation of the Canadian dollar, constitutes a first step in the direction of the attainment of this objective.

This step however is not likely to prove to be effective to any large degree at the current level of the free Canadian dollar. When the official dollar was revalued to par the inflow of U. S. capital funds ceased abruptly. It is logical therefore to consider the natural complementary measure that would once more make investment in Canadian internal bonds attractive on this side of the border. Canadian initiative in making the first move in the direction of foreign exchange realism would also cause constructive repercussions in other fields. It would undoubtedly precipitate similar action on the part of Sweden, and the chain reaction once set in motion would bring intolerable pressure to bear on all vulnerable currencies.

During the week there was little activity in the external bond section but the initial effect of the announcement of the registration privilege was a slight hardening of the internal bonds. Free funds also strengthened sympathetically; their current level however is likely to induce liquidation of existing recorded bonds, the scarcity value of which has been impaired as a result of the new amendment of the FECB regulations. Action on the stock markets was mostly on the downside with the paper and base-metal issues still reflecting the successive price-cuts. Gold stocks on the other hand were strong on revived expectations of currency adjustments and the Western oils also displayed resistance to the prevailing weak trend.

Newburger Displaying Baldwin Wks. Products

PHILADELPHIA, PA. — Newburger & Co., 1324 Walnut Street, members of the New York and Philadelphia-Baltimore Stock Exchanges, are now showing the latest products of the Baldwin Locomotive Works in their "Visualization" program.

Philco, Radio Corporation, General Mills, Cluett-Peabody and Westinghouse Electric have been featured in the past.

Davies & Mejia to Admit J. J. Lucas

SAN FRANCISCO, CALIF. — John J. Lucas will be admitted to partnership in Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges on June 1. Mr. Lucas was formerly with Sutro & Co. and in the past was a partner in Walston, Hoffman & Goodwin.

Economic Council Warns on Spending, Taxes

President's Economic Advisers suggest "lesser goal" than \$4 billion tax increase, and would ease excises. Would delay increase in payroll levies and advise cuts in government spending.

According to Associated Press dispatches, the President's Council of Economic Advisers, comprising Doctors Edwin G. Nourse, Leon Keyserling and John D. Clark, in a quarterly report recently submitted to Mr. Truman cautioned against substantial increases in



Edwin G. Nourse



Leon H. Keyserling



John D. Clark

taxes and government spending, and even suggested that present excise taxes in some cases be eased. Regarding taxes the Council is reported to have recommended:

(1) Reducing those wartime excise taxes which basically affect business operations and which produce only a comparatively small amount of revenue. The 3% levy on air, land and water freight, for instance, pyramids costs because it applies anew at each step from the mine or mill to the consumer;

(2) Delaying the proposed increase in the Social Security payroll tax from July 1, as the Administration proposed, to the scheduled date, next Jan. 1. The levy, shared by workers and employers reduces pay checks and increases business production costs;

(3) A "lesser goal" than the \$4,000,000,000 tax increase which the President asked in January.

It is also reported that the Council, as a group advised against increased government expenditures by launching on a series of public works commitments.

Canada Eases Rules on Securities Purchases

According to the Canadian Press, two changes in regulations governing trading in Canadian securities by non-residents have been announced by the Canadian Exchange Control Board.

One change will allow a non-resident to register with the board any new outright purchases in Canada of Canadian bonds or debentures, making these securities eligible for subsequent sale in Canada or the United States by the non-resident. Previously this right has been only for non-resident purchases of Canadian stocks and shares.

The change would permit a non-resident making a new investment in Canada in any Canadian security to sell the securities at any time either in Canada or the United States. If they are sold in Canada, he will be able to export the Canadian dollars realized and convert them into United States currency through the unofficial market.

The other change made in the rules deals with exchanges by non-residents of Canadian securities which are not eligible for outright sale in Canada. Previously a non-resident investor could acquire only a security due within three years, or subject to call within that period, in exchange for a security due to mature or subject to call within the same space. The restriction now has been removed in relation to exchanges of non-government securities payable in Canadian dollars only. As in the past, securities issued or guaranteed by the Government of Canada or of any province can be acquired by non-residents only for cash or in exchange for other securities of the same kind.

SEC Exempts Directors' and Officers' Bonus and Remuneration Shares From Resale Curbs

The Securities and Exchange Commission has amended Rule X-16B-2 under the Securities Exchange Act of 1934 so as to provide an exemption from Section 16 (b) of the Act with respect to the acquisition of certain equity securities issued to directors and officers as a part of their remuneration. A preliminary draft of the proposed amendment was published on Feb. 25, 1949.

Section 16 (b) of the Act provides, in general, that where any director or officer of the issuer of a registered security or any beneficial owner of more than 10% of any class of such security has realized a profit from any purchase and sale, or sale and purchase, of any equity security of the issuer within any period of less than six months, such profit may be recovered by the issuer.

The exemption provided by the rule is subject to several conditions designed to limit it to bona fide bonus, profit-sharing and similar remuneration plans. These conditions are, stated briefly, that the plan must have been approved by security holders; that the security must have been acquired solely in consideration of services; that the amount of securities acquired by each director or officer must have been determined by an independent committee of three or more members or by the board of directors; and finally, that the exemption is not available unless the amount of funds or securities distributed or set aside for a fiscal year pursuant to the plan is related to the net profits of the issuer and its subsidiaries for such year.

It should be noted that the rule provides no exemption with respect to the acquisition of convertible securities or warrants or rights nor does it apply to the acquisition of any security through conversion or through the exercise of any option, warrant, or right.

IBA Sets Up U. S. Savs. Bond Groups

CHICAGO, ILL.—U. S. Savings Bond Committees have been set up for each of the 17 Groups of the Investment Bankers Association of America, according to Hal H. Dewar of Dewar, Robertson & Pancoast, San Antonio, President of the Association.

The Committees, including a Chairman for each state, are part of a nationwide organization established to assist the Treasury Department in the forthcoming Saving Bond Drive which opens May 16 with a quota of \$1,040,000,000 Series "E" Bonds. A National Committee, under the leadership of Ewing T. Boles, President, the Ohio Co., Columbus, includes the following Chairmen of Group Committees:

California: Russell A. Kent, Bank of America, San Francisco.

Central States: Andrew M. Baird, A. G. Becker & Co., Inc., Chicago.

Eastern Pennsylvania: Walter A. Schmidt, Schmidt, Poole & Co., Philadelphia.

Michigan: Gerald E. Miller, Kenower & Co., Detroit.

Minnesota: Rollin G. Andrews, J. M. Dain & Co., Minneapolis.

Mississippi Valley: Walter J. Creely, Goldman, Sachs & Co., St. Louis.

New England: Howard M. Biscoe, Jr., Whiting, Weeks & Stubbs, Boston.

New York: W. Fenton Johnston, Smith, Barney & Co., New York.

Northern Ohio: John D. Burge, Ball, Burge & Kraus, Cleveland.

Ohio Valley: Marion H. Cardwell, J. J. B. Hilliard & Son, Louisville.

Pacific Northwest: Theodore H. Wegener, Wegener & Daly, Inc., Boise, Idaho.

Rocky Mountain: Burdick Simons, Sidlo, Simons, Roberts & Co., Denver.

Southeastern: Joseph W. Sener, John C. Legg & Co., Baltimore.

Southern: James W. Means, Courts & Co., Atlanta.

Southwestern: Russell E. Siefert, Stern Bros. & Co., Kansas City, Mo.

Texas: L. W. Stayart, James & Stayart, Inc., Dallas.

Western Pennsylvania: Fred W. Willey, E. H. Rollins & Sons, Inc., Pittsburgh.

The investment bankers have planned a three-point program to stimulate the purchase of U. S. Savings Bonds:

(1) Enclosure of Treasury Department literature in all mailings made by member firms

(2) Reference to the Savings Bond Drive in regular company advertising as well as special Savings Bond advertisements.

(3) Solicitation of executives, particularly those who employ large numbers of people, to encourage adoption of the payroll savings plan.

King, Quirk & Co. Being Formed in NYC

Announcement is made of the formation of the firm of King, Quirk & Co., Inc., to be effective June 1, 1949. The new firm will specialize in state, municipal and public revenue bonds. Officers will be Joseph C. Quirk, President; William P. King, Vice-President, and Richard H. Migel, Secretary and Treasurer.

Mr. Quirk has been active for many years in the state and municipal bond business. Mr. King has been Vice-President of Harris, Hall & Co., Inc., for some years in charge of municipal bond operations in New York City. Mr. Migel has been associated with Hemphill, Noyes & Co. Offices of the new firm will be at 25 Broadway, New York City.

CANADIAN BONDS

GOVERNMENT
PROVINCIAL
MUNICIPAL
CORPORATION

CANADIAN STOCKS

A. E. AMES & CO.
INCORPORATED

TWO WALL STREET
NEW YORK 5, N. Y.

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Securities Salesman's Corner

By JOHN DUTTON

If you were operating a retail store in your town instead of a securities business you would insist that every article you sold represented real value. You would sell only good quality merchandise that would hold up—you would be jealous of your reputation as a merchant—you would know that the only way that you could constantly expect repeat business is through satisfied customers. This is all so obvious that it hardly bears repetition.

But this simple fundamental of business success must be applied to the retelling of securities if you are ever going to reach that desirable goal when people come in to see you instead of your having to go to see them. During the past year there has been a revival of merchandising activity on the part of all of us who are selling investments. We are trying to interest the small investor; we are trying advertisements in foreign language papers; we are appealing to labor through ads in the labor press; we are keeping open one or two evenings a week, and we are literally racking our brains out to find new and better ways to sell more securities. This is all to the good, but one thing is certain; this business or no other business will be worth while as long as we have to continue to battle day in and day out for new customers. As long as we must keep up the pressure for sales there is something wrong. Eventually any business that is intelligently and SOUNDLY BUILT must get to the point where there is a certain amount of steady business that can be relied upon in good times and bad. New business must always be developed BUT OLD CUSTOMERS SHOULD BE REPEAT CUSTOMERS.

You have probably heard it said that the life of a clientele in the securities business is about three to five years. I don't think this is statistically correct but it probably represents the experience of a good many who have relied upon expediency and have only filled up the pipelines of demand for highly speculative securities during boiling bull markets.

Gradually this unsound condition is being corrected. Investment dealers are now operating their business along sound and proven lines. No longer is the average small dealer interested in some promoter's long-shot proposition, wherein he has been the one who went out and loaded up his customers for a small profit to himself and then found out that he was left holding the bag. Today, the average security dealer is careful of what he buys and what he recommends. He isn't jumping into situations where a few men who dominate management and play ducks and drakes with their stockholders' money have a good time for themselves while his customers can whistle for their dividends. He is saying NO with a loud and firm voice to nine out of ten who come in to see him and try to persuade him to put his customers' hard-earned dough into someone else's business. And it is all to the good as we see it.

Here's the way it looks to us. A set of principles something like this should hang over the boss' desk, so that all who come in might read:

- (1) We are here to do a good job for our customers. They always come FIRST with us.
- (2) We do believe that there are some attractive speculative opportunities—but they are only good for people who can afford to take such risks.
- (3) The securities business is not a gambling game—or a chance for 100 to 1 shots. Our business is primarily to assist our customers in PRESERVING THEIR PRINCIPAL, AND OBTAINING A FAIR RETURN IN INCOME OVER THE LONGER TERM.
- (4) When we buy securities, or make recommendations to our customers—we have one thought in mind—THEIR WELFARE. For it is the continued good will of our customers upon which this business must rely for its lasting success in the years to come.

Nature Does It Best

"The avowed aim of much of the current economic planning is to bring about a higher degree of integration of European economy. Yet the observable tendencies appear to move in the opposite direction. This is true, not only in relations between the two great complementary regions, the West and East of Europe, where political cleavages hamper the development of economic cooperation. It also appears to be true within these two regions owing to the rigid trading framework within which economic controls necessarily operate and owing to the absence so far of any satisfactory mechanism for extending long-range planning to the field of international trade.

"The test of effective international cooperation will be the extent to which these tendencies can be counteracted by a conscious effort to introduce closer integration into the separate plans and policies. So far little has been accomplished in this direction."—United Nations Economic Commission for Europe.

One way to reach this goal, as history amply demonstrates, is to permit natural forces to operate!

The authorities deceive themselves if they think they can do a better job.

Money Madness—Is There a Cure?

By ARTHUR R. UPGREN*

Professor of Economics, University of Minnesota
Associate Editorial Editor, The Minneapolis "Star"

Professor Upgren, holding money is an invention, explains working of a managed monetary system. Outlines problems of money management and describes mechanics in creating money. Says only wise use of money is to promote and maintain economic stability and approves government outlays to maintain employment and prices whenever consumer spending and investment cannot effect the result. Advocates public housing as offset to coming depression.

I am going to begin with a definition of money. The definition is very useful because it is one selected to describe money in a way which helps yield a better comprehension of the phenomenon of money. The late Prof. Frank W. Fetter of Princeton said: "Money is the



Arthur R. Upgren

greatest of mankind's inventions." This definition helps us to understand money in three ways. First, it makes an estimate of the rank order of the general subject chosen for these lectures this year. It places that subject to the forefront in importance for us. Second, money is something which is man-made. Money's intrinsic metals were gifts of nature but not the idea of Money. Professor Gustav Cassell of Sweden would have all money units be pure "abstracts units of reckoning" (accounting). Then money's value would be entirely independent of money's physical form. Its function as a facilitator of exchange (the important mechanistic function) and as a store of value would be made clearer of any "intrinsic value" concepts. Professor Cassell concedes that money exists only within the conception of man.

The third point of Fetter's definition of money is that it is "an invention." That is consistent with Cassell's view. To sum up again: money is an invention, an invention of man, and is man's greatest invention. Money is not an institution of the deity and

therefore it may be more perfected. Being man-made, it is to be man-controlled. Being an invention, money is intended to be useful, a thing as surely in man's service as man can make it be.

Now as to its right to outrank in importance all other inventions. If we apply the common test to estimate the importance of any other object, namely, measuring what we would lose if we were to be deprived of it, it can safely be said that the loss of functioning money would reduce society's productiveness more than were we to lose the steam engine or the electric motor.

Professor Heller has told of the loss of German productiveness when none dared accept money except for a fleeting moment when its value could not collapse. We have all learned of the ability of the re-institution of money in Germany to be followed by an immediate appearance as goods as though a thousand Aladdin's lamps had been rubbed or 10,000,000 horsepower placed at western Germany's command.

Nor do I expect money as an invention to lose any laurels to future machines which will harness atomic energy for peaceful (or warlike) purposes. Money has its primacy because it can harness incentives of man and thereby facilitate man's requirements for harnessing all other forces through whatever mechanism or structure may be required to that end.

Money is an invention of a higher order. Thus to have a peer requires another invention produced on a similar higher plane. One such might be a device to secure peace or to stop war. But it must meet a fearful test if it is

to rival money: Will the device or mechanism be as widely acceptable as money is to all men everywhere? That test alone tells us something of the greatness of money and some of the difficulty of he who would nudge it to one side.

Next we might consider the availability of money. Useful as it is, what about its future adequacy? Though we may for the moment become impatient with an apparent superficiality in this treatment of money, I propose to show a little later that securing economic stability for our society has extremely severe requirements but that our now greater control over money is going to be of enormous importance in winning stability. I view economic stability at home as equalled only in importance by peaceful adjustment of relations to Russia if we are to have peace within the framework of a free society in a secure world.

Perhaps the best way to demonstrate the monetary lessons of two wars is to make a blunt assertion: it is that our experience in financing the two wars, together with one simple monetary accident comparable say to Goodyear's accidental vulcanization of rubber with sulphur, has given us the knowledge of how to command whatever amount of money we need. I shall give a demonstration in an amount of \$50,000,000,000 a little later.

This is not to say that we shall command money wisely. But command it we shall, I am sure of that.

Money is a mechanism which can be wrecked as can any other

(Continued on page 26)

This announcement is under no circumstances to be construed as an offering of securities for sale, or as an offer to buy, or as a solicitation of an offer to buy, any securities. The offer is made only by means of the Prospectus.

56,000 Shares

The Southwestern States Telephone Company

Common Stock

(Par value \$1.00 per share)

Non-transferable subscription rights to subscribe for these shares were issued by the Company to holders of its Common Stock, which rights expired at 12:00 Noon, Pacific Standard Time, May 7, 1949. The unsubscribed balance of shares may be offered by the underwriters as more fully set forth in the Prospectus.

Price \$10.00 per share

Copies of the Prospectus may be obtained from the undersigned only by persons to whom the undersigned may legally offer these securities under applicable securities laws.

G. H. Walker & Co.
Cruttenden & Co.

Schneider, Bernet & Hickman
Dewar, Robertson & Pancoast

Prescott, Wright, Snider Co.

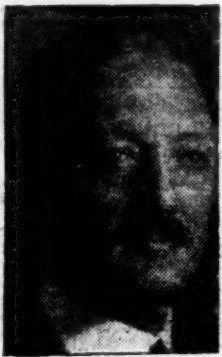
MAY 9, 1949

The Threat of Rail Nationalization

By FAIRMAN R. DICK*
Partner, Dick & Merle-Smith
Members, New York Stock Exchange

Asserting unless railroads can attract new investment they will pass from frying pan of broken down private enterprise into fire of nationalization, Mr. Dick foresees need of an increase from present 3.6% to a 7% rate of earnings on capital to avoid this eventuality. Denies competition is barrier to increased rail earnings.

As I understand it, my part in this discussion is the part the investor plays in the survival of private enterprise in transportation. I will limit my remarks to the most important section of transportation—the railroads. The investor has a most important part in the



Fairman R. Dick

life or death of private enterprise in our railroads—in fact it might be said, the most important part. This is because private enterprise, if it is to function successfully, requires a constant flow of new money for modernization. Without new money, it withers and dies. The investor is the source of supply of this money.

Today he will not supply it to the railroads. The battle to preserve our railroads in private ownership and operation is the battle to persuade the investor to furnish the necessary funds.

How can the disaster of nationalization—at least I call it a disaster—be avoided? It can be avoided only by persuading the investor to furnish to the railroads vast sums of new money. If we fail here, the game is up, finally and definitely, even though we cannot predict just when the timekeeper will blow his whistle.

One other point should be mentioned. When our railroads are starved physically they are also starved mentally. Inventiveness, imagination and genius in designing improvements are paralyzed if there is no hope of getting the money to make the improvements.

Now look ahead to the future. If our private enterprise system continues to operate successfully wages and our standard of living will continue to rise. If the railroads, however, cannot get the money to improve their property they will fall behind in the procession. Gains in efficiency in that case will not offset higher wages. Don't waste your time grumbling about present rates. As far as high rates are concerned, "you ain't seen nothing yet." You—the public—will not like this, nor will you like the service furnished by an industry that is becoming more and more obsolete—like the Model T, for instance. And at some point you will jump out of the frying pan of broken down private enterprise into the fire of nationalization. I don't think this jump will do you much good and I feel sure you will not like it.

Up to now I have endeavored to give you my reasons for believing that we must win back the investor to the railroads or we will lose the railroads to the government. And the question now before us is, how can we win him back?

In the first place, who is the "railroad investor?" If you have ever attended rate hearings you have heard him described as a selfish individual who wants to get more money out of the shippers. You have often heard the expression, "fair to the investor." This is all a lot of nonsense. There isn't any "railroad investor." No investors are condemned to buy or hold railroad securities. They

can invest or not invest in anything they choose. Everybody in this room is undoubtedly an investor. And you and I are going to buy railroad securities when they appeal to us as good investments, and not before. Neither you nor I, nor the rest of the 140,000,000 Americans buy an investment because someone tells us it is the fair thing to do. We will buy a railroad security when we think it is a better investment than other securities. If we don't think it more attractive, we will not buy it, we will buy something else. The investor, you and I and all the rest of us Americans, are the managers of our own savings. And if anybody or any industry wants our money they have got to meet our terms, or do without.

Today, you and I are avoiding the railroad industry and choosing other industries. And the reason we so decide seems to me to be obvious. The railroads earn only 3½% while other industries earn over twice as much, in many instances three or four times as much. There is no more reason why a man should put his money to work at 3½% when he can get much more than there is for him to accept a job at \$3,500 a year when he can get much more.

Answer to Railroad Credit Problem

The answer to the railroad credit problem is obvious. If the railroads are to win us back as investors they must earn more money—3½% is not enough, that is certain. You would like to say, I am sure, what the earning requirement is. I regret that it is not possible to answer that question. I would be prophesying what you and all other investors would think and do. I can only say that the Bell System had to earn approximately 7% to satisfy your requirements and I doubt if the railroads can satisfy them for a lesser amount.

If I am correct in my analysis, the railroads must earn twice as much in the future as they have in the past if they are to obtain your savings. Earning more does not necessarily mean charging more, except temporarily. In the long run I believe it means charging less.

I well realize that many of you believe competition is a barrier to such an increase in earnings. From this view I dissent. I am convinced that it is not competition that has held down railroad earnings to 3.60% for the last quarter century.

I have not the time to give the reasons for my conviction. I will merely suggest to you that if it is competition that has held railroad earnings down to 3.60% then it follows that the railroads have more competition than any other industry in the United States. Railroads, therefore, should not be the most regulated industry in the United States; they should be the least regulated industry. If we are going to regulate anything, every other industry should have precedence.

Our refusal to accept this simple, logical fact is a principal reason for our failure to solve the railroad problem. We cannot decide whether the railroads are the strongest or the weakest industry in the country. So we decide that they are both, at one and the same

time. We cannot decide whether our course lies due north or due south, so we try and walk in both directions at once. Obviously we get nowhere fast.

The competition theory, however, is not true. The railroads have been earning 3.60% because regulation has enforced rates that produce this return. For 28 years the Commission has hit this target with an accuracy that surpassed controlled precision artillery fire. I can prove this mathematically. And the most accurate string of four shots in the entire period were in the last four years when the railroads were offered more traffic than they could carry. It might also interest you to know that the Commission hit its target of 3.60% with greater accuracy than the Bell System hit its target of 6.42%. I scored the match, and the Commission won by a score of 121 to 119.

I repeat, therefore, that the railroads have earned 3.60% because that has been the target of the Commission. I assert that they can hit 7% if the Commission aims at that target. And I further predict that you will not entrust your savings to the railroads until they do hit this target and you are convinced that they will continue to do so.

Just one final word. Please do not let us evade our responsibility by criticising the Interstate Commerce Commission. I regard the Commission as the very best of our administrative agencies. Its personnel is unexcelled in character and integrity. A cure for the railroad disease does not lie in any re-shuffling of its membership. The infection lies far deeper. It lies at the very roots of our political organism.

Now French & Crawford

ATLANTA, GA. — The firm name of J. McCrea French & Co., 22 Marietta Street Building, has been changed to French & Crawford, Inc. Officers are J. McCrea French, President; Allen Crawford, Jr., Vice-President and Treasurer; and B. L. Gann, Secretary.

Seymour V. Frank Dead

Seymour V. Frank, a partner in the former firm of Billings & Frank, New York City, died on April 18.

C. T. Revere Dead

C. T. Revere, Laird, Bissell & Meeds, New York City, died May 8.

William C. Bradley Dies

William C. Bradley, former New York City investment dealer, died at his home at the age of 73. Prior to forming his own company in New York City, he was with the Guaranty Trust Co.

With State Bond Mtge. Co.

(Special to THE FINANCIAL CHRONICLE)
NEW ULM, MINN.—Lloyd B. Jafvert is with State Bond & Mortgage Co., 26½ North Minnesota Street.

With J. Arthur Warner Co.

(Special to THE FINANCIAL CHRONICLE)
ROCKLAND, MAINE — Eunice H. Winslow has joined the staff of J. Arthur Warner & Co., Inc., 431 Main Street.

Railroad Securities

Alleghany's Exchange Offer

The details of Alleghany's proposed offer of exchange to holders of its prior preferred and preferred stocks were released over last weekend. Holders of the prior preferred will be given the opportunity to turn in up to 50% of their holdings and receive therefor 2½ shares of Chesapeake & Ohio common for each share turned in. Holders of the regular preferred will be given the opportunity to turn in up to 10% of their holdings and receive therefor 1½ shares of Chesapeake & Ohio common for each share turned in.

The offer is scheduled to expire May 18 but the company has the right to extend the proposal for an additional 20 days. Holders of the prior preferred will be entitled to exchange more than 50% of their holdings if any stock allocated to this issue as a whole is left over when the offer expires. The same is true of the regular preferred. If the entire offer is accepted Alleghany Corporation will lose 122,760 shares of its Chesapeake & Ohio common stock holdings. It will be left with 478,774 shares, representing 6.1% of the total outstanding.

Based on the closing price last week the maximum amount of Chesapeake & Ohio common distributable under the proposal had a market value of \$3,959,000. The Alleghany Corporation stocks that would be retired have an aggregate claim, including accumulated unpaid dividends, of more than \$17 millions.

Alleghany Corporation prior preferred closed last week at 72 bid—73½ asked. Including accumulated dividends it has a claim of approximately 85½ and its net asset value is close to \$750 a share. The Chesapeake & Ohio common stock being offered holders of these shares had an equivalent value of 72½ at last Saturday's close. Alleghany regular preferred was selling at 46½ at the end of last week. It has a claim, including accumulated dividends, of close to \$200 a share and its net asset value is around \$85 a share. The Chesapeake & Ohio stock it is being offered had an equivalent value of 48½ at last week's closing price.

On the basis of these figures it does not appear likely that the proposal will get a particularly enthusiastic reception except possibly from Alleghany holders anxious to get a dividend paying stock. To the extent that the offer is successful, however, the move will obviously materially strengthen the position of the remaining stock. It will also bring closer the day when some equity might be developed for Alleghany common stock. At the same time, the offer will leave the Alleghany with nearly as much Chesapeake & Ohio stock as it had a year ago and would not impair its control of that property.

For some time now Alleghany has been following a policy of liquidating its holdings in railroad securities. Aside from its commitment in Chesapeake & Ohio, its only sizable block of railroad stock is apparently represented by 137,500 shares of Chicago, Rock Island & Pacific common. The company had held 250,000 shares of Rock Island and it was proposed to sell 225,000 shares of that as a special offering to the public. Market conditions were not favorable to such a transaction so the offering was withdrawn. Since then it has been announced that half of the stock originally earmarked for sale was disposed of.

For the most part the funds realized from the sale of substantial rail holdings have remained intact, although there has been a consistent increase in the company's interest in Pittston Company. What the company will eventually do with the cash and Government bonds it has amassed is a moot question but it is obvious that after the current operation the company will hardly be a subject for this column.

As for its one remaining important rail holding, Chesapeake & Ohio, the stock has been doing nothing marketwise despite improved earnings and prospects. It has been selling only about a point above the year's low and below the lowest prices reached in any year 1943-1947, inclusive. As a matter of fact, it is necessary to go back to 1932, when the high was 31½, to find a year in which this stock did not sell above the current level at some time. Last year earnings on the stock amounted to \$3.73 a share and in the first quarter of 1949 there was a gain of 22% in net income over the previous year's showing. The \$3.00 dividend is considered safe.

Twin City Bond Club 28th Annual Outing

MINNEAPOLIS, MINN. — The Twin City Bond Club will hold its 28th Annual Golf Tournament and Picnic at the White Bear Yacht Club on June 15. Scheduled for the day are golf, tennis, bridge, swimming, boating. Luncheon will be served from 12:00 to 2:00 p.m. and dinner about 7:00 p.m. There will be a cocktail party on Tuesday, evening, June 14, 6:30 to 8:30 p.m., in the Junior Ballroom, Nicollet Hotel for guests and members.

Guest registration fee is \$25. Because of the necessity of arranging hotel accommodations, it is urged that reservations be made by May 27 with William S. MacFadden, Piper, Jaffray & Hopwood, Minneapolis, Chairman of the Invitation Committee.

Chairmen of the various committees are: Horace L. Cummer, Kalman & Co., St. Paul, General Chairman; Lael R. Abbott, J. M. Dain & Co., Minneapolis, Yacht Club; Oscar N. Bergman, Allison-Williams Co., Minneapolis, Trans-

portation; Carlton R. Croning, Allison-Williams Co., Minneapolis, Special Collections; Howard T. Booth and Douglas M. Warner, Paine, Webber, Jackson & Curtis, Minneapolis, Cocktail Party; Robert S. Davis, John Nuveen & Co., St. Paul, Golf; Myron F. Leighton, M. F. Leighton & Co., St. Paul, Special Event; William S. MacFadden, Invitations; Paul W. Matsche, Paine, Webber, Jackson & Curtis, St. Paul, Tennis; F. S. Goth, Merrill Lynch, Pierce, Fenner & Beane, St. Paul, and William J. Lau, J. M. Dain & Co., Minneapolis, Special.

J. P. Morgan Appoints

The Board of Directors of J. P. Morgan & Co. Incorporated, 23 Wall Street, New York City, have appointed Samuel R. Callaway an Investment Officer and John P. Schroeder an Assistant Treasurer.

Three With King Merritt

(Special to THE FINANCIAL CHRONICLE)
MINNEAPOLIS, MINN.—Isaac A. Bergen, Oscar E. Johnson, and Ted A. Nadeau are now with King Merritt & Co., Pence Building.

*Talk by Mr. Dick at Luncheon Session of the 37th Annual Meeting of the Chamber of Commerce of United States, Washington, D. C., May 4, 1949.

Public Utility Securities

By OWEN ELY

Electric Power & Light

Electric Power & Light's dissolution plan in the past few weeks has been a case of "on agin, off agin." The amended plan was approved March 7 by the SEC and application was made to the Southern U. S. District Court in New York for enforcement. Federal Judge Clancy surprised everyone by giving a prompt decision April 13 "from the bench"—although most Federal courts seem to take an average of about six months to reach decisions on these plans. The company announced that the plan would become operative May 10, although common stockholders might have to wait a short time thereafter to obtain their new securities.

Then began the legal skirmishes by the Cameron Biewend-Christian Johnson group of common stockholders. The Circuit Court of Appeals was asked for a "stay" of the plan; Judge Learned Hand refused a temporary stay, but apparently this was not a final ruling. The two Circuit Judges (the third, Jerome Frank, had disqualified himself) took nearly a week to consider the matter further and again denied a stay—yet nevertheless mentioned June 13 as a possible day for an appeal hearing! This was interpreted to mean that application for a stay would be made to the U. S. Supreme Court, and this proved correct. The company obligingly set forward the date for the plan to May 17, although forms for the preferred stock exchange had already been mailed out to stockholders.

There the matter rests at this writing (Saturday, May 7). Wall Street arbitrageurs have, however, taken an active interest in the proposed exchanges under the plan. The normal arbitrage operation is to buy EL stocks and go short of United Gas and Middle South Utilities "when issued." With only about half a million shares of United Gas on the Curb (some 95% is held by EL) it soon proved difficult to borrow the stock, or to await "up-ticks" to make short sales. A when-issued market was started over-counter, and this stock is now selling at about a point below the regular Curb quotation (the spread has narrowed from 1½ points) because of the pressure of short sales—and possibly some short-covering on the Curb.

The exchange terms are as follows, values being based on when-issued quotations of 16 and 15, respectively, for United Gas and Middle South Utilities:

	May 6, 1949	Approximate No. Shares	Estimated
	Price	United Gas	Middle South Utilities Break-Up Value Per Share
\$7 1st Preferred ---	169	6.5	4.5
\$6 1st Preferred ---	164½	5.9	4.1
\$7 2nd Preferred ---	168	6.25	4.3
Common ---	24⅞	1.32	⅓.35
Warrants ---	8¼	.44	⅓.12

*Including estimated dividend adjustment. †Including estimated additional stock to be received by EL for extra cash placed in subsidiaries.

Obviously the arbitrage operations have temporarily decreased the breakup values. In order to realize the theoretical estimates of breakup values which have been published from time to time in the Street, it will be necessary for EL stockholders to retain their new holdings until the securities are moderately "seasoned," or at least until the pressure of arbitraging and odd-lot selling is relieved. What would market values be for the two stocks under more normal conditions? United Gas, which sold as high as 21 this year, has been under double pressure—earnings have probably been in a downtrend recently due to the warm winter and declining prices for natural gasoline. It appears likely that a normal price might be somewhere around 18½ (it has sold recently on the Curb around 18).

Middle South—which will be listed on the Big Board as soon as the plan becomes operative—is earning at an estimated system rate of about \$1.80 and is expected to pay dividends at the rate of \$1.10, beginning next Fall. As an integrated "growth" holding company it seems comparable to Central & South West, which is currently selling at about 9 times earnings to yield 6.6%. On a similar basis Middle South might be expected to sell around 16½. Taking United Gas at 18½ and Middle South at 16½, estimated "seasoned" breakup values would work out as follows:

	Seasoned Break-Up	Recent Market
\$7 1st Preferred ---	\$194	169
\$6 1st Preferred ---	177	154½
\$7 2nd Preferred ---	194	168
Common ---	30	24⅞
Warrants ---	10	8¼

Chicago Bond Club to Hold Annual Field Day

CHICAGO, ILL.—The Annual Field Day of the Bond Club of Chicago, will be held again this year at Knollwood Club, Lake Forest, Friday, June 3. The following general committee has been appointed: Joseph W. Hibben, General Chairman, Kidder Peabody & Co.; Andrew M. Baird, A. G. Becker & Co., Inc.; George S. Channer, Jr., Channer Securities Co.; Henry W. Meers, White, Weld & Co., Vice-Chairmen.

The General Chairman has appointed the following Committee Chairmen:

Arrangements — Robert A. Podesta, Cruttenenden & Co.

Dinner—Harris E. Wilder, the Illinois Co.

Entertainment—Wm. J. Lawlor, Jr., Hornblower & Weeks.

Baseball—John W. Allyn, A. C. Allyn & Co.

Golf—Robert L. Holt, Blair & Co., Inc.

Tennis—John A. Kelly, Smith, Barney & Co.

Trophies — Lewis Miller, First National Bank of Chicago.

Indoor Sports — Rowland H. Murray, Ketcham & Nongard.

Raffle—Wm. H. Higgins, Paine, Webber, Jackson & Curtis.

Raffle Prizes — Herbert A. Hutchinson, McMaster, Hutchinson & Co.

Refreshments—Geo. S. Haskell, Smith, Barney & Co.

Pari-Mutuel—H. Gerald Nordberg, E. H. Rollins & Sons, Inc.

William S. Beeken Adds

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA. — Christopher N. Wilson has been added to the staff of William S. Beeken Co., Harvey Building.

With First California Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — John D. Wells has become affiliated with First California Co., 300 Montgomery Street.

Farm Products Price Decline in Offing

By THEODORE W. SCHULTZ*

Chairman, Department of Economics, University of Chicago

Leading agricultural economist predicts value of farm products in next three to five years will average from 15% to 26% under current level. Criticizes government price making mechanism and urges its replacement by privately organized institutions, subject to governmental rules and regulations. Advocates governmental action in providing storage facilities and safeguarding farm income in event of depression. Attacks price parity formulas.

Farm programs have their own well-established seasons, and now is the time to sow. Nor has the urge to sow been lacking. The soft, warm breeze of Spring has brought forth many who feel compelled to scatter seeds upon the soil. All manner of seeds have been



Theodore W. Schultz

sown, for there has been no visible shortage of seed stock. The weather has been exceptionally good ever since the election last Fall for germinating new farm programs. But all have not fallen upon good soil.

There is the Agricultural Act of 1948, with its flexible price support features; there are those who want higher and less flexible price supports; there is the new price support program recently proposed by the Secretary of Agriculture; and then there are the critical, unconstructed ideas of economists—seldom sought and always difficult to understand and apply.

New Price Support Program

To bring matters down to earth, let me take the new price support program of the Secretary of Agriculture, which presumably cuts the Gordian knot of parity and embraces income payments to free prices in the market place. More specifically, the Secretary, on April 7, 1949, appearing at a joint hearing of the House and Senate Committees on Agriculture, announced and recommended a price support program having the following major characteristics:

(1) It would establish a new base period in determining the desired relationship between prices paid and prices received by farmers, and in doing so, abandon the old, heretofore sacred 1910-14 base period in favor of a moving base beginning with the 10 years 1939-1948.

(2) It would employ a 10-year moving average in determining the level at which any given farm product is to be supported relative to other farm products—a procedure quite similar to that specified in the Agricultural Act of 1948.

(3) It would provide price supports which are independent of year-to-year variations in supply, thus leaving out the flexible features of the Act of 1948 which provide a schedule of price supports dependent upon the size of the supply of the product.

(4) In administering the new price support program, the USDA would employ a species of income payments (called production payments in the proposal) in addition to all the existing measures already authorized.

The main issues on which I shall concentrate my attention in this paper are these: Would the Secretary's program free agricultural price policy from the grip of parity? Would it use income payments to counteract the adverse effects of major business fluctuations? In more general terms, how firm is the economic foundation on which this price support program rests? These questions are, of course, fully as applicable to other proposals, in-

cluding the widely debated provisions of the Agricultural Act of 1948, as they are to the program recommended by the Secretary of Agriculture, and this will become evident as I proceed.

Since it is my purpose to go back to fairly basic considerations in pricing farm products, I shall make explicit the main assumptions underlying my analysis, although they may seem altogether obvious and elementary. These assumptions are as follows:

(1) Consumer's choice should be maintained and improved. The choices of consumers should be expressed freely and efficiently because they are necessary to determine the value of the components that enter into the social product. The value of farm products and of the resources employed to produce them are no exception.

(2) A system of relative prices of both products and resources should be maintained and improved. It should be the means by which economic decisions are coordinated, because it is the most efficient mechanism for guiding the allocative decisions of producers consistent with the procedures and basic purposes of our society.

(3) The problems arising out of business fluctuations should be solved with a minimum of disturbance to the effectiveness of consumer's choice and to the capacity of relative prices.

(4) The social objective of lessening the inequality in incomes (the personal distribution of income among individuals and families) should also be achieved with a minimum of impairment of consumer's choice and of relative prices.

One or two observations with regard to these assumptions may be helpful at this point. The role of consumer's choice needs to be qualified somewhat in the case of food, inasmuch as our society is agreed that it is desirable to encourage children to form good food habits consistent with our existing knowledge about nutrition. Our school lunch program is pointed in that direction. Obviously, other means might also be used to achieve this end, both for children and, in principle, for adults as well. Another qualification arises when stockpiling and other measures are taken for reasons of national security. These two qualifications, however, do not establish a case for the overall drift clearly evident in price support programs seriously impairing the role of consumer's choice. The pricing of potatoes is not an isolated example. Many farm products have been diverted, dumped, or destroyed, although the evidence has been less dramatic than it has been in potatoes. The plea of the Secretary that most farm products are perishables and therefore cannot be withheld and handled once they have been produced and sold by farmers without obvious waste, points up one of the difficulties that has arisen. It does not take account, however, of the widespread impairment of consumer's choice that has occurred in pricing the more durable farm products. Nor would production payments in handling perishables under the conditions envisioned in the proposal give full and effective expression to consumer's choice. It would, of

course, do so in distributing among consumers and other users the supply that has been produced and sold by farmers, but not in guiding the allocation of agricultural resources during the next and subsequent production periods.

I. Setting of the Pricing Problem As of 1949

The war-induced boom that got underway in 1941 has virtually spent itself as far as food is concerned, and farm prices are returning, as a consequence, to their peacetime positions relative to other prices. Meanwhile, it has become increasingly apparent that the price support program carried forward from the war period will force the USDA to accumulate stocks of wheat, corn, cotton, and other storable products in extraordinarily large amounts, will soon put farming under crop controls and market quotas and will create an all but impossible situation for the USDA in dealing with such major perishable products as hogs. These developments should not have come as a surprise, for it was easy to foretell these rather obvious economic consequences. In addition, however, there has arisen a pronounced political drive for increasing price supports even further, motivated in large part by the desire to keep the farm income from falling substantially; partly to create a need for and to justify the use of the old production control machinery; partly to exact a very considerable monopoly price from consumers, following in this matter the notable success of the tobacco group; and partly to take advantage of the turn of the election and the presumed claim that farmers have on the successful party.

Clearly, the economic indicators all point to adjustments in price supports which lie in the opposite direction from that in which the political forces I have described are headed. For example, if production control and marketing quotas are to be averted, or at least kept at some minimum, it will be necessary to lower the existing level of price supports. If some semblance of economic order is to be maintained in dealing with big and small crops, a schedule of support prices will be required to obtain some measure of flexibility. If perishable farm products are to be given a "support price," income payments of some sort will have to be employed, virtually of necessity.

The setting of our problem, therefore, presents us with a curious incongruity between the economic realities which are rapidly unfolding and the political configuration which has arisen. Who is there that can reconcile these two aspects of social action? Regardless of the outcome, the value of farm products must be determined.

II. What Value Should the U. S. Place on its Farm Products?

This question is indeed basic. A mistaken answer has been taken as valid in much of the argument about agricultural price policy. The proposal of the Secretary is no exception. Farm products simply do not have as high a value as farm leaders would like to believe. Should farm products be valued as high as they were during the war and the early postwar

(Continued on page 24)

*An address by Prof. Schultz before the Mid-West Economic Association Meetings, St. Louis, Mo., April 21, 1949.

Southern Banker Favors Free Gold Market

George M. Clark, President of Pioneer Bank, Chattanooga, Tenn., tells Senate Banking Committee it will be means of checking inflation and will aid both bankers and their clients, as well as enabling the nation to decide on precise basis for return to full-fledged gold standard.

In a statement presented to the Senate Banking and Currency Committee, which held hearings May 6 on the McCarran Bill to legalize a free gold market, George M. Clark, President of the Pioneer Bank, Chattanooga, Tenn., strongly supported the measure.



George M. Clark

In the course of his testimony, Mr. Clark stated: "It has always seemed to me almost incontrovertible that money, in order to qualify as good money and retain its virtue as a medium of exchange through the thick and thin of business

fluctuations, must consist of a valuable substance which has universal acceptance. In our country in recent years, that is, up until 1933, gold has always served as this basic monetary substance. In fact I believe our dollar has always been defined as a stated quantity of gold. Although I have heard a great deal of so-called new theory on money to the effect that gold is not necessary as a base and that paper currency under proper controls would serve as well, I am still old-fashioned enough to believe that the experience of centuries cannot be thrown away lightly. In the history books which I studied, the experiences with paper currency have never been happy and inevitably ended with inflation, bankruptcy, debt repudiation, and often social disorder and violence as well.

"About two and a half centuries ago a Scotsman named John Law persuaded a king of France to try a managed currency resting on paper alone. The experiment came to grief. I believe this has been the invariable result of every similar experiment since. Even in Russia, where the government exercises a degree of power over people which would be impossible in this country, it was found necessary to effect so-called currency reforms about a year and a half ago. These reforms consisted of the seizure of nine-tenths of the money which the people had, two-thirds of their bank deposits, and a repudiation of half the internal Russian debt. In spite of extraordinary controls and the most despotic kind of regimentation, inflation nevertheless occurred in this Paradise of the communists.

"It seems to me that these lessons should not be lightly passed over. When our government in 1933 and 1934 first denied the people the right to convert their paper currency into gold, it was a step taken in the face of a great economic emergency. It was not believed at the time that this country would remain indefinitely on a paper money standard. Fifteen years have passed. We now have almost three-fourths of the total monetary gold stock of the world and it seems to me that it is high time for us to return to the solid, durable basis of gold.

"I have a special interest in this subject. I know that the absence of gold, into which our paper money is freely convertible, makes it easier to multiply that supply of money. It is also reasonably clear to me that when money is multiplied indefinitely its value takes the same course as any other commodity whose supply is greatly increased. In other words, it declines in value. When money declines in value, prices go up, which is simply another way of saying the same

thing. Therefore, the absence of a gold standard which permits the free conversion of paper money into gold predisposes the economy to inflation. When inflation occurs I, both as a citizen and as a banker, become acutely aware of dangers and developments which I believe are a menace to the freedom of our citizens and the welfare of our country.

"What such inflation does to the distribution of wealth in this country I will leave to professional economists. However, I do know that as soon as inflation or the threat of it appears, my government believes it necessary to take certain actions which presumably will either prevent inflation or check the effects.

"Among these actions, which I felt particularly as a banker, are the control of consumer financing and changes in the reserves which I must maintain against my deposits. Until these novel theories of inflation control appeared, I had always believed that the negotiation of a loan between a banker and a customer was a matter of primary, in fact almost exclusive, significance, to the two parties concerned. When I sit down with a client who wishes to borrow \$500 to enable him to make a purchase, I feel it is up to the two of us to decide whether that \$500 is too much to lend, whether it will impose an excessive burden upon the borrower, or expose the bank to an undue risk.

"These loans, in terms of banking, have always been good loans on the whole. Our experience with them has been as good or better than our experience with commercial loans. Now, however, the government, for the ostensible purpose of checking inflation, steps in and through the Federal Reserve Board, issues regulations which tell me precisely how much I may lend to my customer and what the terms will be. I have seen many instances in which this interference with a worthy customer's ability to borrow or buy on the terms he needs result in rank injustice. The meeting of emergencies and the grasping of opportunities by many honest borrowers do not lend themselves to compliance with statistical formulas.

"I have no desire here to explore the wider ramifications of this interference. I am conscious of the fact that such interference occurs whenever inflation threatens and that the threat of inflation is traceable in part to the lack of a gold standard.

"It is for this reason that I am interested in the measure proposed by Senator McCarran which would permit a free market in gold. This is a measure which seems to my lay mind a desirable, practical, first step in the restoration of a sound currency.

"The threat of inflation exposes me and my customers to other onerous actions by the government.

"Bankers are expected to maintain reserves against their deposits. These reserves in the past have been regarded as an assurance of a minimum of liquidity for banks. Such have been the functions of reserves in banking. Now, however, as a result of a new philosophy of inflation control, these reserves have lost their original character as guarantees of minimum liquidity. They have now become a throttle in the massive engine of government control by which assets of banks are frozen in varying proportions for

the apparent purpose of checking inflation.

"The phenomenon of inflation in recent years has I believe been due to other causes than inadequate bank reserves or the volume of consumer financing. Whatever the true causes are, the fact is that when inflation rears its head the Pioneer Bank of Chattanooga and its customers become guinea pigs in an experiment in inflation control whose logic and equity I seriously question.

"Here again I am brought back to gold and the desirability of re-establishing our currency on a base which will make less likely the kind of inflation that seems to our authorities to call for controls of which banks and their customers have been the victims.

"Beyond this I would also like to say a word about the stake which our farmers have in a sound currency. Whenever prices move up and the government steps in to curtail its powers, ceilings are placed on prices and rationing is used to govern the distribution of goods. Invariably, with rationing black markets appear. They appear because the price fixed by the government under controls is an ideal price, presumably fair to the consumer, which has no regard for the realities of the market place and the over-powering forces of supply and demand.

"A rationed market with price control is an unnatural market and as a result under-the-counter deals become common and the housewife is obliged to pay not only the higher price which supply and demand would call for, but also a charge for the risks of surreptitious marketing. This has a two-fold effect. It irritates the housewife and it puts the farmer in a position where he, as the principal producer of foods, becomes the object of public resentment.

"This may go so far as to involve onerous and costly control of farm production and in some extremities even seizure of farm produce by the government. Thus, inflation control leads directly and inevitably to totalitarian control of our economy, with the farmer and the consumer conspicuous victims.

"It seems to me than anything we can do to ward off this danger is desirable. In making this statement, I am conscious of the limitations of a gold standard. It is not a cure-all. Price fluctuations and depressions occur under a gold standard, but the very fact that our paper money and our bank deposits may be converted into gold at the choice of the holder places a limit on the expansion of the money supply and tends likewise to check the range within which prices may move. It is not a perfect instrument but a helpful instrument.

"This measure under consideration by this Committee provides for a free market in gold. It will afford to the American people the first opportunity in more than 15 years to take their currency into the market place and exchange it for a quantity of gold. By developing an open market value for gold, it will make it easier for our government to decide on the precise basis for a return to a full-fledged gold standard."

Three with Herrick, Waddell & Reed, Inc.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—William T. Wishart, Donald R. Eldridge, and William R. Dwyer have been added to the staff of Herrick, Waddell & Reed, Inc., 1012 Baltimore Avenue.

With Burke & MacDonald

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Robert K. Aber has become affiliated with Burke & MacDonald, 907 Walnut Street.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Since last November general business, as reflected in the Federal Reserve Board Index of Industrial Production, has been declining.

From the postwar peak of 195 reached in that month the index has moved down steadily for over four months. The latest available figures for March place the index at 184% of the 1935-1939 average. Because of subsequent further declines in certain areas of industrial activity, it is expected that the index will be lower for April.

Two of the principal components of the index which have been maintaining a high level of production and giving considerable support to the index have been steel and automobiles. Even here, however, there are signs that some easing in supply and demand has taken place.

Steel operations during the past several weeks have declined from over 100% of rated capacity to the present level of around 96-97%. Also, in automobiles, supply is fast catching up with demand as evidenced by price reductions. Although operations are continuing at a high level, it remains a question as to how long the present production rate will continue. Temporarily, strikes at Ford and some parts manufacturers are hampering full-scale operations.

In other lines of industrial activity, such as textiles, paper, oil, minerals and chemicals, there continues to be evidence that operations and output are declining.

Thus with the trend of business activity definitely downward, investors have become concerned about the extent of the decline and the outlook for earnings and dividends. As a result of this uncertainty, an increasing amount of attention has been given to those stocks which offer the greatest security of dividend payments in the period ahead.

Among the industry groups which seem to have been favored are included bank, can, chewing gum, food, insurance, retail trade (variety and grocery chains), tobacco, drug, and public utility.

Bank stocks have some of the longest records of continuous dividend payments of any group of securities. For example, the First National Bank of Boston has a dividend record going back to 1785 or 164 years. Others have made payments for over 100 years.

Present disbursements of most banks are conservative in relation to earnings and should be maintained under any foreseeable circumstances. For these reasons, they offer one of the best investments for steady income at the present time.

The following tabulation shows the year since continuous dividends have been paid, the present annual payment, percentage of 1948 earnings paid out, the 1949 price range, the present price and the current yield for a group of selected bank stocks.

	Contin- ous Pay- ments Since	Present Annual Payment	Perce. of 1948 Oper- Earnings Paid Out	Price Range 1949— High Low	Present Price	Current Yield
Bank of Manhattan	1847	\$1.30	49%	\$25 1/2 — \$23 3/4	\$24 3/8	5.33%
Bankers Trust	1903	1.80	58	40 1/2 — 38	39 1/4	4.58
Central Hanover	1853	4.00	58	96 1/4 — 82 1/2	89 1/2	4.47
Chase National	1878	1.60	62	35 1/4 — 32 3/4	33 1/8	4.83
Chemical Bank	1827	1.80	62	40 3/4 — 38 1/4	39 3/8	4.54
Commercial National	1930	2.00	59	41 — 38	40 1/4	4.97
Corn Exchange	1853	2.80	57	53 1/4 — 49 1/2	52 1/2	5.33
First National (N. Y.)	1863	80.00	104	1,218 — 1,145	1,185	6.75
Guaranty Trust	1891	12.00	67	276 — 252	275	4.36
Irving Trust	1906	0.80	59	15 7/8 — 15 1/8	15 1/4	5.08
Manufacturers Trust	1908	2.40	50	54 1/8 — 48	49 1/8	4.89
National City	1812	1.60	48	40 1/4 — 37 1/8	39	4.10
New York Trust	1893	4.00	62	84 1/4 — 80	82 1/2	4.85
Public National	1915	2.00	43	38 1/4 — 37 1/4	38 1/8	5.18
Bank of America	1932	2.50	55	46 3/4 — 40	42 1/2	5.88
First National (Boston)	1785	2.25	57	49 3/8 — 45 1/8	47 3/8	4.72
National Shawmut	1836	1.00	46	24 3/4 — 22	24 3/8	4.06
First National (Chicago)	1934	8.00	193	173 — 173	173	4.62
Continental Illinois	1935	4.00	58	79 1/2 — 74	75	5.33
Pennsylvania Co.	1327	1.75	55	34 1/2 — 31	32	5.47

The above figures show a long record of dividend payments. Considering the fact that many of the institutions have made payments through banking crises and major depressions, the record is impressive. Last year payments were well covered by net operating earnings as only about 60% of such earnings was distributed. The outlook for this year is one of relative stability, although the recent sharp decline in loans may be reflected in moderately lower earnings.

There is another factor which could be of considerable importance to bank stocks at this time. Because of the high investment regard in which bank stocks are held, they possess certain of the characteristics of preferred stocks. For this reason the yields on bank stocks tend to fluctuate and follow the same trends as preferreds.

Recent developments have been favorable to high quality preferred. If a substantial decline should take place in the yields on preferred stocks, a rise in bank stocks could result. This could conceivably occur almost regardless of the course of bank earnings.

Halsey, Stuart Offers N. Y. Central Equip.

Halsey, Stuart & Co. Inc. and associates were awarded, May 5, \$10,725,000 New York Central RR. Third Equip. Trust of 1949 2 3/4% Equipment Trust Certificates, maturing \$715,000 annually May 15, 1950 to 1964, inclusive. The certificates, issued under the Philadelphia plan, were immediately re-offered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.50% to 2.85%, according to maturity.

Proceeds from the sale of certificates will provide for the following new standard-gauge railroad equipment estimated to cost \$13,734,360: 46 Diesel road freight locomotives; 10 switching locomotives; and 900 gondola cars. Associated in the offering were

R. W. Pressprich & Co.; A. C. Becker & Co., Inc.; Blair & Co., Inc.; Gregory & Son, Inc.; Harris, Hall & Co. (Inc.); Hornblower & Weeks; Merrill Lynch, Pierce, Fenner & Beane; Otis & Co.; Phelps, Fenn & Co.; L. F. Rothschild & Co.; First of Michigan Corp.; Graham, Parsons & Co.; The Illinois Co.; Wm. E. Pollock & Co., Inc.; William Blair & Co.; Freeman & Co.; Hayden, Miller & Co.; Swiss American Corp.; Clayton Securities Corp.; Julien Collins & Co.; McMaster Hutchin-son & Co.; Mullaney, Wells & Co., and F. S. Yantis & Co.

Joins A. M. Kidder Staff

(Special to THE FINANCIAL CHRONICLE)

TAMPA, FLA.—Paul T. Schooley has joined the staff of A. M. Kidder & Co., Hillsboro Hotel Building.

The Welfare State—What Labor Wants

By NELSON H. CRUIKSHANK*

Director of Social Insurance Activities, American Federation of Labor

Organized labor spokesman expresses opposition to all-inclusive government activity that can control details of daily living and relationships with each other, but defends government expanding into social security and like services. Says problem is not in limiting government action but in keeping control of government in hands of people.

The term "welfare state" has become a fighting term. The reason is that it has taken on two quite opposite meanings. There is one meaning ascribed to the term which is based on a concept of the State or government as something foreign to and removed from the



N. H. Cruikshank

people and which seeks to control, direct and provide for all the people's needs. Such a program of government action—whether prompted by good or bad motives—removes incentives from the individual, stifles initiative and becomes inevitably the master of the people that it set out to serve. Recent history abroad provides extensive support for that view.

To that kind of all-inclusive government activity I know that you as individuals and your organization are unalterably opposed. There we are on common ground. Labor, likewise, opposes and will oppose with all the force at our command any attempt by any government to control the details of daily living and our relationships with each other even if it is alleged to be for our own good. That is why we are against the Taft-Hartley Act.

Both employers and labor must oppose despotism in any form. There is no such thing as a benevolent despot.

There is another concept of the welfare state, however, that is rooted in a quite different idea of the nature of the state. This is the idea that the state can be the servant of the people. The idea that Lincoln expressed as "a government of the people, by the people, for the people" is not three ideas of government, but one. The only kind of government that can genuinely be for the people is one that is by and of the people. The state, like the Sabbath, is made for man and not man for the state.

If a people succeed in maintaining this concept of government the state then becomes the instrument through which they do those things for themselves which they cannot do individually. Though they use the instrumentality of government they are still performing these functions for themselves. Under such a concept individual opportunity can be maintained and enlarged and individual initiative can be encouraged.

Now, under such an idea of the nature and the purpose of the state the concept of the welfare state takes on quite a different meaning than that which I first described. In line with this idea which was that held by the founders of our government, it is not a question as to whether we should have a welfare state. That question was settled in 1789 with the adoption of the Constitution. The purpose of government in the United States of America was set forth clearly in the preamble of that document where "We the people of the United States" are committed until such time as that document is changed to six enduring programs. We are to form,

establish, insure, provide, promote and secure. The fifth of these action programs to which we are committed is to "Promote the general welfare" through the National Government.

This is reinforced in Article I, Section 8:

"The Congress shall have Power: To lay and collect Taxes, Duties, Imposts, and Excises, to pay the Debts and provide for the common Defense and general welfare of the United States . . ."

It is significant that the first defense of a broad power of Congress to act for the general welfare was conducted by Alexander Hamilton in reference to the question of the establishment of a National Bank. Opponents of the bank argued that no power was given by the Constitution to the Congress for such a purpose. But Hamilton supported his argument by reference to the general welfare clause.

Since that date there has been a host of enactments sponsored by every political party, that has been developed in our history, of both liberal and conservative persuasion to implement the welfare activities of our National Government. Every time that Congress has passed a tariff act we have engaged in an activity of the welfare state.

In this long development there have been some historic milestones. One of them was the enactment of the Homestead Act of 1862, signed by that most distinguished Republican President, Abraham Lincoln. After a long and bitter battle this was a decision on the part of the people's representatives in Congress to dedicate the vast resources of the public domain to the needs of plain people, as it provided for the settlement of public lands in quarter-section units. I like also to point out to those who allege that the idea of social security is a foreign concept that actually we launched on a social security program through the enactment of this Act. When we so dedicated the public domain we were actually providing a combined old-age security and unemployment compensation program, as a study of the waves of migration from the Eastern industrial areas to the valleys of the Middle West in their relation to successive periods of unemployment in the industrial areas will show.

It needs to be pointed out also that this kind of activity by a welfare state was not confined to aiding people in search of family security or who were endeavoring to escape the hazards of unemployment. Vast amounts of land were granted to corporations supposedly as an incentive to the development of our railroad transportation system. In the period from 1850 to 1871 grants of land from the Federal Government and from the States to the railroads amounted to a total of 179,000,000 acres. This is more land area than the total of the States of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, Maryland, the District of Columbia, Virginia and North Carolina combined!

I am not here to condemn the use of the public land in this manner; I am only pointing out that when we talk about the welfare state we have to remember that

the welfare activities of the State have been at least as lavish in support of business enterprise as they have been on behalf of plain people. I cannot refrain, however, from pointing out that these enormous grants make the claims in this industry which we see in railroad advertisements and railroad-sponsored editorials that this is the only industry that pays its own way appear in rather awkward relation to the established facts.

We need only to look at the budget of the United States Government submitted for the fiscal year 1950 to find that the activities of the welfare state are by no means confined to the extension of aid to unfortunate individuals. A ship operator, for example, has available detailed and expertly prepared charts and tide tables printed by the Hydrographic Office of the Navy at an expense of \$4,451,000. In contrast to that those who seek aid from the Federal Government either from management or labor's standpoint in the development of sound labor standards have to rely on the Bureau of Labor Standards in the Department of Labor whose total budget for the year is only \$391,000. The Bureau of Labor Statistics operates on an annual budget of \$5,450,000. A navigator of ocean-going vessels has prepared for him by the government annual tide tables that will tell him for every day and every hour of the year the status of the tides and the flow of the currents in every port in the world. But a citizen who is responsible for steering a course in sound labor-management relations finds that the item for printing and binding in the Department of Labor is exactly zero. \$25,000,000 is set aside this year for the Agricultural Extension Service. In 1947, we had a tiny budget of \$37,000 under which the Department of Labor was providing similar aids to American citizens responsible for furthering understanding of collective bargaining processes. The 80th Congress wiped out even this minute item. It is our contention that if it is worth four and a half million dollars to publish charts and tide tables and \$12 million to maintain aids to navigation and another \$24 million to provide weather information to keep ships from running aground, it is worth at least some comparable figure to aid those in charge of collective bargaining programs from running into the rocks and shoals of industrial strife.

When the frontier was exhausted and the public lands were all settled or given away and we found ourselves still faced with the insecurity of old-age and unemployment, the government simply continued its basic policy of dedicating its resources and instrumentalities to the aid of people to provide through a system of social insurance against these contingencies. That is how our social security system came into effect as an activity of the welfare state.

In this connection and in reference to a social security case (Helvering v. Davis), a notable opinion was written in 1937 by Justice Cardozo of the United States Supreme Court. This opinion runs so directly to our subject that I wish to quote from it at some length. Before doing so I

should like to remind you that Justice Cardozo was not a New Deal appointee, but was appointed to the High Court by President Hoover, a President who I imagine is not lacking in admirers in this room. Justice Cardozo said:

"Congress may spend money in aid of the 'general welfare' . . . There have been great statesmen in our history who have stood for other views. We will not resurrect the contest. It is now settled by decision. . . ."

"The purge of the nation-wide calamity that began in 1929 has taught us many lessons. Not the least, of the solidarity of interests that may once have seemed to be divided . . . Spreading from state to state, unemployment is an ill not particular but general, which may be checked, if Congress so determines, by the resources of the nation. If this can have been doubtful until now, our ruling today . . . has set the doubt at rest. . . . The hope behind this statute is to save men and women from the rigors of the poorhouse as well as from the haunting fear that such a lot awaits them when the journey's end is near. . . . The problem is mainly national in area and dimensions. Moreover, laws of the separate states cannot deal with it effectively. Congress, at least had a basis for that belief. . . . Only a power that is national can serve the interests of all. . . . The issue is a closed one. It was fought out long ago."

It is in the spirit of this decision that we in labor shall seek to employ the instrument of government to meet other needs that cannot be met by individual action.

One of these areas is in the field of public housing. According to the report of the Senate Committee on Banking and Currency (Senate Report No. 84 of the 81st Congress, First Session), the facts are that we must be prepared to build or rehabilitate an average of at least 1,300,000 non-farm dwelling units and between 200,000 and 300,000 farm units each year over the next 12 years if substantial progress is to be made in bettering housing conditions of American families. The record of the private building industry, particularly since the war, establishes conclusively that it cannot handle the job alone since nearly two-thirds of our families have incomes of less than \$4,000 and are completely out of the housing market in terms of being able to buy or rent the homes constructed by the private building industry.

In the field of education we decided over a 100 years ago that the education of our children is not properly a field for business enterprise operated for profit and we established a system of free public schools. In the course of our national development we are now faced with the fact that we cannot leave the support of these schools dependent entirely on the uneven financial resources of the localities and states. It has, therefore, become imperative that the one agency to which we all belong by right of birth or naturalization; namely, the Federal Government, must be used to give assistance in meeting the cost of educating our young.

Another common need is for a method of meeting the high and unpredictable cost of medical care through an extension of the principle of social insurance. We do not wish to see the government in the practice of medicine. We do not wish to regiment doctors or patients. We do not wish to socialize medicine, and no bill supported by organized labor in the United States calls for any such thing. We, the working people of America, seek simply to promote the general welfare by using the instrumentality of government to establish a fund contributed to out of our own wages with like contributions from our

employers to remove the ever-present dread of doctor and hospital bills that can drive us to the relief rolls and the loan shark.

Experience has taught us that every forward step in the field of social and economic welfare brings some dangers. Advances in this field are no more free from hazards and pitfalls than was the conquest of a continent by our pioneer forefathers. As we seek to utilize the services of government we must be on guard against government becoming our master. But we also recognize that people cannot guarantee their freedom by such a simple formula as limiting and crippling the power of their government.

The essential problem is not one of restricting and limiting the field of government action, but in keeping the control of the government in the hands of the people so that it remains their servant. Eternal vigilance is the price of liberty. Eternal vigilance and not eternal obstructionism. We gladly join with our friends in business in the exercise of that vigilance. Together we can use, and not be used by, the resources of government which in another age helped men break through the frontiers to a more satisfactory life.

Boylan Elected by New York Stock Exch.

At the annual election of the New York Stock Exchange, the following officers were elected:

Chairman of the Board of Governors: Robert P. Boylan (for a term of one year).



Robert P. Boylan

Seven Members of the Board of Governors (for three-year terms): Richard M. Crooks, Thomson & McKinnon; Harold W. Scott, Dean Witter & Co.; Homer A. Vilas, Cyrus J. Lawrence & Sons; Amyas Ames, Kidder, Peabody & Co.; Winthrop H. Smith, Merrill Lynch, Pierce, Fenner & Beane; Latham W. Murfey, Curtiss, House & Co., Cleveland; Nathan K. Parker, Kay Richards & Co., Pittsburgh.

Two Members of the Gratuity Fund (three-year term):

Clinton S. Lutkins, R. W. Pressprich & Co., and William D. Scholle, Scholle Bros.

Nominating Committee (one-year term):

Page Chapman, Jr., Tucker, Anthony & Co.; William M. Meehan, M. J. Meehan & Co.; Mark C. Meltzer, Jr., Asiel & Co.; Joseph W. Dixon, Graham, Parsons & Co.; W. Fenton Johnston, Smith, Barney & Co.

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NEW HAVEN, CONN.—Bennett E. Preston is with George C. Lane & Co., Inc., 70 College Street.

*An address by Mr. Cruikshank at the General Luncheon of the 37th Annual Meeting of the Chamber of Commerce of the United States, Washington, D. C., May 3, 1949.

Farm Products Price Decline in Offing

(Continued from page 21)

years? Obviously, no—unless war were to occur. Should they be valued at the old parity, leaving aside for the moment the appropriate relationships among farm prices and considering only the ratio of the average of all farm prices received to prices paid by farmers? A clear-cut answer can be had from the drift in commodity markets starting last fall and still underway. For all who are willing to look at what is being writ, the answer is an unqualified No.

How much farm products will be worth during the next few years is the crucial issue in any attempt to evaluate either the old 1910-1914 parity or the new 1939-48 income standard proposed by the Secretary of Agriculture. There are essentially two ways to get our bearings on this matter. One consists of formulating an empirical judgment about the value of farm products on the basis of economic forces and developments under way, and the other is to consider the valuation process in principle and indicate the formal results that emerge.

On the empirical side, the evidence is about as conclusive as it can be that farm products are not as valuable in the United States as the proponents of the various price support programs are maintaining. About a year ago, the Committee on Agriculture of the House put out an important study made by the BAE on Long-Range Prospects for American Agriculture.¹ The assumptions underlying this study were carefully formulated, although decidedly on the optimistic side. The following conclusions are noteworthy: With high employment, the ratio of prices received to prices paid by farmers would approximate parity; with intermediate employment, the average level of this price ratio would be in the neighborhood of 85; and with depression conditions, it would drop to about 67. My own efforts² to gauge the value of farm products for the years immediately ahead, say for the next three to five years—assuming that unemployment does not exceed four million, that we export and import farm products at competitive prices, that ample stocks are maintained for emergency purposes, and that agricultural production continues at its present level—indicate that the prices of farm products will rule (average) as much as 15% to 20% below their current level relative to other prices. [This means, taking the existing legal parity as a measure, that farm prices would decline (relatively) from 105 (as of Feb. 15, 1949) to a parity as low as 85 to 90 if the farm products were allowed to clear the market.]

Before taking up the more formal aspects of pricing products in line with their value, we may dispose of the question: Does the Secretary's price support program break with parity? If parity is taken to mean the 1910-14 base years, then clearly the Secretary has not tied his program to parity. But such a narrow definition of parity would be a mere quibble. The 1939-48 base period employed by the Secretary performs the same function in determining the ratio of prices received to prices paid by farmers as it does in the 1910-14 base under existing farm legislation. To call it an "income standard" does not alter its function—a rose by any other name smells quite the same.

What, then, is to be achieved by

shifting the base forward from the five pre-World War I years to the ten most recent years? Instead of introducing a period with a ratio of prices received to prices paid by farmers more nearly in line with the real value of farm products, it further overvalues farm products taken as a whole. While it is difficult, with the materials now available, to make a precise comparison, it is plain that the 1939-48 period is about 5% on the wrong side of the 1910-14 base period.³

This much is fairly evident: In making price policy for agriculture, the basic question of the value of farm products is not being faced, and until it is, no satisfactory solution can be achieved of the waste and misuse of farm products that arises whether they are dumped abroad, diverted to inferior uses at home, or accumulated as stocks in quite unmanageable amounts, and of the inefficient use of agricultural resources that arises when recourse is had to acreage allotments and marketing quotas and to other measures intended to control agricultural production. The question which has been put to the forefront in agricultural price policy has focused primarily on farm income; namely, how large a share of the national income should be distributed to farm families? The unwillingness of farm groups to consider the shortcomings of the 1910-14 parity in pricing farm products and the recent efforts to increase price supports in terms of parity and to put off going over to flexible price supports, are all indications of the growing income bias underlying agricultural price policy. The statement of the Secretary on April 7, justifying the proposed income standards is unmistakably clear on this point.

The fruit of economic analysis is not being garnered. Instead, some of those who speak for agriculture are reaching for the forbidden apple, and for the adverse consequences that go with that act.⁴

The contributions of economic analysis to the resource allocation and to the income distribution problems have been presented with a good deal of care both by myself and others, as they apply

³ In exhibit A, "Provisional Definition of Income Standard" included in the statement by the Secretary of Agriculture of April 7, 1949, is an index of prices paid by farmers, constructed so that it averages 100 for the years 1939-48. The old parity ratio for these years averaged 106.4. See *The Economic Report of the President*, January, 1949, Table c-22, p. 121.

⁴ Two very misleading rationalizations are being advanced for the view that the size of the farm income that is desired should come first, and that all other considerations should be put in a secondary position. One of these is the assertion that under no conditions will lower farm prices reduce agricultural production because when farm prices decline, agricultural production is independent of farm prices. Under special conditions, for example, when many resources are unemployed in the non-agricultural sectors of the economy, lower farm prices will not induce a transfer of labor or of capital out of farming. But this conclusion simply is not valid when the industrial-urban sectors are operating at a high level of employment and production. Moreover, even when unemployed resources are large a shift in relative prices within agriculture will induce farmers to shift the use to which they put the resources under their control even though no overall contradiction may occur. The second assertion is that acreage allotments and marketing quotas will check and control agricultural production whereas farm prices will not do so. This belief is closely akin to the first, although its source makes the assertion much more suspect, for it is usually those individuals who have a vested interest in the old agricultural control machinery who go all out for this view. Two remarks are in order. In the first place, the experiences of the late thirties indicate that the control programs, except under the drastic restrictions imposed upon cotton, did not reduce the output. In the second place, and much more important, under conditions of full employment both theory and practice provide no support for the view that relative prices will not bring production in line with demand.

to agriculture, and therefore need not be repeated here.⁵ In sum and substance, the analysis tells us that the price-making mechanism is not an appropriate apparatus for lessening the inequality in the personal distribution of income. If it were, why would we encumber ourselves with a complicated system of progressive income and inheritance taxes instead of simply increasing the price of the resources which the particular families who should receive more income have to sell? To attempt to use price supports for this purpose will have two highly undesirable consequences: (1) It will seriously impair the capacity of prices in allocating agricultural resources, and (2) It will affect adversely the distribution of income within agriculture in spite of the restriction imposed to limit the size of the benefits going to large farm operators.

III. By What Procedure Should Farm Products Be Priced?

Pricing is simply a way of organizing and managing economic activity. Different pricing procedures will do this job with different degrees of efficiency. What we want in this case is a more efficient way of pricing farm products. How may this be achieved?

One procedure would be to place more of the task of price-making than is now the case upon privately organized institutions subject only to governmental rules and regulations. The arguments in favor of doing this are quite powerful. It would eliminate the obvious inefficiencies which have become embedded in the existing price support and control programs. These uncoordinated aspects of farm prices would quickly disappear as they did for the most part during the years since 1941 when neither price floors nor ceilings were effective. It would bring about a complete separation of the "resource allocation problem" from the "income distribution problem" which has gotten into pricing via government. Unless this separation is achieved, the efficiency of whatever pricing procedure is employed will be seriously impaired. The unstable conditions that characterized the period from 1914 to date have placed an undue strain on price-making institutions. The fault for the wide swings in prices that occurred did not necessarily lie at the door of these institutions, for they merely reflected the general instability that so profoundly affected our entire economy. The fact remains, however, that one of the unfortunate legacies of the great depression is a widespread loss of faith in the efficacy of free markets.

The shortcomings of privately organized markets in this field must also be considered to the extent that their efficiency and acceptability as price-making institutions is affected. They have not provided farmers with a meaningful futures price—meaningful either as a guide in making production plans for the next production period, which is commonly from one to three years on ahead, or as a hedge for safeguarding their forward commitments. Future price transactions which have been developed by the organized commodity exchanges serve other purposes. The private marketing system, as we have known it, has not performed the storage function at all satisfactorily. Here, again, it is not the short-run distribution of stocks which has been seriously at fault, but the distribution of

stocks to bridge large and short crops, the most important being the accumulation and discumulation of feed to counteract the wide fluctuations in feed production caused by our continental climate which continues to affect our livestock economy adversely.

A more serious limitation than either of the two already noted, although not unrelated to them, has been the year-to-year (leaving aside the seasonal fluctuations) variations in farm prices and the uncertainty that these variations have imposed on farmers. In a recent paper⁶ I pointed out that, over the years, the prices of the more perishable farm products have fluctuated less than have the prices of the more storable products, and that the misallocations in resources which have become embedded in American agriculture, that is, the inefficiency with which capital and labor are employed, including the matter of scale, appear to be closely related to these variations in farm prices. If this preliminary analysis is sustained, it would indicate that product storability has not acted to stabilize prices from one year to another as it should, but on the contrary, has been a factor contributing to price instability in the market setting which has existed. It may well be true, however, that this perverse effect of storage has been brought about by the overall unstable conditions, and that the corrective lies in monetary, fiscal, and other general policies.

Let me conclude my observations on privately organized markets with this remark: Much more attention should be given than is now the case to ways of removing these limitations with a view to strengthening and enlarging the role of such price-making institutions. In any event, it is still clear that despite all of the farm programs which have emerged, these markets still perform a major function in pricing farm products.

Another procedure in pricing farm products would consist of governmental action intended to supplement the existing privately organized markets in two directions, one of these being in the field of storage and the other in safeguarding farm income in the event of a depression. On first thought, it might appear that this is essentially what the existing price support programs are trying to accomplish. I am sure, however, that the accumulation of cotton, wheat, corn, and other farm products prior to the war, and that taking place very rapidly at present, was not and is not the result of a carefully developed storage policy, but rather the consequence of holding the farm price of these products at 90% of parity, regardless of storage requirements. Our storage operations are, therefore, merely a by-product—a hit-and-miss affair without design or principle. This is not the place or occasion, however, to present the essential features of a defensible storage program; suffice it to say that we are badly in need of a storage program which will not only give us adequate stocks of the right products held in the right places for national security, but which will also come to grips with the problem of widely fluctuating feed supply.

What about safeguarding farm income in the event of a depression? I will not repeat the arguments for governmental action of this type; instead let me touch briefly on criteria and procedure. Is parity based on 1910-14 or on the Secretary's new income standard a meaningful criterion for determining when a depression is underway in the United States? The answer, I am sure, must be in the negative. Although the new income standard specified \$26,234

million for agriculture in 1950, no one would contend that in the event the farm income were to be exactly \$26 billion or substantially less than that, therefore unemployment would be widespread; the aggregate income and demand of the U. S. economy would be down and depressed. On the contrary, the farm income in 1950 could fall several billion dollars and the economy as a whole might be experiencing another inflationary period. The same remarks may be applied to the old parity or to farm prices held at no higher than 90% of parity.

At this point I can only repeat what I have said elsewhere on this matter. To safeguard farm income in the event of a depression, it is necessary to ascertain with reasonable accuracy when a depression is at hand and when it is over. What is needed is a measure of events affecting economic expectations in the urban industrial community. Whatever indicators are used for this purpose, they should not include agricultural production, prices, or income. The principle of drawing a sharp line of demarcation between agricultural and other industries for this purpose is exceedingly important.⁷

Once a depression exists, and leaving it to the political process to determine to what extent the income of farmers should be maintained, how is this objective to be achieved? Obviously some way must be found of supplementing the income of farmers under these conditions. Here we have the case for what I have been prone to call "Compensatory Payments." In summary, these payments should accomplish the following:

(1) Reduce the instability of farm income caused by business fluctuations.

(2) Do this in a manner and at a time that will make the payments counter-cyclical in their effect, and

(3) Make the payments to farmers in a way that will not disturb agricultural production or the trade in farm products.⁸

This proposal does not envisage the interference of the government in pricing farm products. It would leave market prices free to clear the supply and demand, regardless of how deep or widespread the depression. Moreover, as an administrative technique, it is fully as applicable to storable as to perishable farm products, and in principle, no distinction should be drawn between them.

An important alternative procedure in pricing farm products would be to undertake a system of forward prices to complement the existing price-making institutions. This step would strengthen such institutions in precisely the area in which they are weakest, since they do not provide farmers with a set of relative prices that are efficient as production guides, but instead impose, as I have indicated, much unnecessary uncertainty upon farmers.

I may be permitted to draw upon my colleague, Professor D. Gale Johnson, briefly at this point, by indicating that the basic aspects of forward prices are few in number and extremely simple:

(1) The prices should be announced sufficiently far in advance to enable farmers to adjust their production programs to the prices.

(2) The prices should cover a sufficient amount of time to permit farmers to complete their production plans.

(3) The prices or price schedules which are announced should be clear and precise so that farmers can readily interpret their implications for themselves.

(4) The prices or price schedules adopted should be those

¹ See Table 1, p. 18 of the Committee print *Long-Range Agricultural Policy*, for the Committee on Agriculture of the House of Representatives, 80th Congress, 2nd Session, March 10, 1948.

² See my analysis, appearing mainly in Chapter 3 in "Agriculture in an Unstable Economy," New York: McGraw-Hill, 1945, and in "Supporting Agricultural Prices by Concealed Dumping," "Journal of Political Economy," Vol. LVI, April, 1948.

⁵ In my *Redirecting Farm Policy*, New York: MacMillan, 1943; *Agriculture in an Unstable Economy*, New York: McGraw-Hill, 1945, especially Part IV; and D. Gale Johnson, *Forward Prices for Agriculture*, Chicago: University of Chicago Press, 1947, Chapters 2 and 3.

⁶ "Spot and Future Prices as Production Guides," *Proceedings of the American Economic Association*, 1949. A paper read at the Cleveland meetings in December, 1948.

⁷ *Agriculture in an Unstable Economy*, p. 223.

⁸ *Agriculture in an Unstable Economy*, p. 223.

which achieve the desired output.⁹

These seed have also been among those which have been sown. They may have fallen on infertile soil, with conditions for germination anything but favorable. It is plain that the Secretary of Agriculture has not proposed a system of forward prices. There is no intention in any of the plans under consideration to adopt prices which will achieve the output desired and to announce them in advance of the time farmers make their commitments for the next production period. Again and again economists have taken the pains to point out that prices based on parity, whether they be tied to 1910-14 or to a recent 10-year period, are inescapably backward in their orientation. Parity is dependent upon a formula. The formula is dependent upon history, and history does not choose to repeat itself. No formula based on either the near or distant past can tell us much about the present

value of farm products, and even less about the relative prices that will be efficient in guiding agricultural production. There are, of course, ways of making any particular parity or income standard less harmful than it would otherwise be; one way is to allow a wide range of administrative discretion as in the early AAA legislation, and another way is to build in various kinds of flexibilities. The merit of Title II of the Agricultural Act of 1948 lies in the fact that it will do the least harm to agricultural production and to trade in farm products.

No one should underrate the power of ideas in reshaping our economic institutions. But this is always in the long run. Meanwhile we should do well to keep our eye on the consequence of the price support programs on which we are embarked. They, too, will have their effect on the shape of things to come.

⁹ Forward Prices for Agriculture, already cited. Introduction, p. 11.

Capital, Jobs and Taxes

(Continued from page 17)

chine. It might pay for the idle one; but it couldn't make it busy.

I am not talking accounting terms. I am not suggesting that we give up bookkeeping. What I am suggesting is that much misunderstanding would be avoided if we could spread the habit of thinking of the capital of companies as we do of bales of cotton, as things and not as dollars.

At this point, you who are familiar with capital, may be thinking politely that these distinctions I have drawn between money and capital are "much ado about nothing," that they are trite and inconsequential. I wish that they were. The amazing fact is that they are not trite, as they should be, and the popular identification of capital and money produces grave consequences.

In the field of corporate statistics, Company A adds in at one million dollars and Company B adds in a twice as much. The busy machine and the idle one score ten thousand apiece. In the public mind a company whose capital stands at two million is twice the size of one which is measured at half as much. The discerning mind will tabulate the equipment and its productivity and test by end results; but the discerning mind does not think of capital and money as the same thing.

The gravest consequences arise in the field of politics. If constituents and their representatives misunderstand the nature of capital and identify it with cash, they see, with the reality of a mirage, immense reservoirs of funds upon which popularly humanitarian but impractical programs may draw. They lose sight of the limitations of capital and they underestimate the need for strong inducements to place savings into the long, complicated and risky process of conversion into capital. If money and capital are the same, in the voters' and the legislators' minds, then how easy it is to visualize a steel mill in place of a Treasury balance.

Capital Must Be Grown and Processed

Fortunately we suffer here from no misunderstanding about capital. We know that, like cotton, it must be grown and processed before it becomes useful.

As President of the New York Curb Exchange I am in the business of growing capital and it is part of my job to worry about the conditions which affect my crops. It does not take any excessive fancy to liken the capital business to the cotton business.

The broad base on which our business rests is the thousands of planters who grow the raw ma-

terial, which is, in our case, money. We have gathering and processing establishments and finally we have markets for the finished product. The savers who produce cash, the investment bankers, banks, insurance companies and dealers who gather it, the business managers who process the raw cash into operating capital and finally the stock markets where capital, in its finished form, is bought and sold, all these and many more are necessary to the process. The raw material that enters the process is money; but the output is capital.

In our business each participant in the process considers his part the most important. Talk to the man who risks his money. He is sure he plays the biggest part. Talk to the investment banker—he helped finance the process—he knows his importance. The manager developed ulcers and high blood pressure in translating money into plans and trained men and equipment to execute them. He hasn't any doubt that he is the main spring. Talk to me—the stock markets where shares in the finished product are bought and sold and the various kinds of demand are evaluated and reflected back to guide the process are without question the most critical posts in the process.

I suppose the cotton planter considers himself the essential fellow in the cotton business and the ginners, carders, spinners, weavers, dyers, and distributors are all prepared to assert their indispensability against his claim.

The fact is that in the capital business, like the cotton business, each step is essential and each part does its job so long as it is profitable or offers the expectation of profit. In each, the initial job is planting seeds or saving money. If there is not sufficient inducement to save and put one's savings into the process of capital formation, then the business dries up at the source.

How Capital Can Be Made Useful

If you can save money you are faced with several choices as to how you may place it in the capital business. You can put it in a bank and let the bank loan it or you can loan it yourself. You can buy insurance and let the insurance company loan it for the benefit of your heirs. The exercise of these choices makes money available on a temporary basis to the process of creating capital. The expectancy is that on the due date you will and can pull it out. Your other choice is to commit your money permanently to the process by contributing it to a company for a share in the business or by buying a share from

someone else who has contributed in the past. In exercising these choices you directly or indirectly participate in the process of permanently increasing the supply of money available to build into capital. It doesn't take a very large return to induce people to make their money available on a temporary basis; but the inducements must be substantial before people will make it available permanently.

All this is a normal process. But what happens to it when someone, who thinks capital and money are the same or readily convertible into each other, starts tinkering with it? If that someone is government and its laws are based on this misconception, several things happen.

The first thing that happens is that the inducements which make the process work are whittled down or eliminated all along the line. Why should there be any inducements to persuade money to act like capital if there is nothing more to the process than deciding whether you want it to lie idle as cash or be productive as capital?

The second thing that happens is that, with the inducements diminished or subjected to ceilings, the process of growing capital begins to slow up. Government then attempts to offset this obvious embarrassment by raising taxes (thus reducing the inducements still further). In such short sighted action government eats the seeds of future capital. Such an "Operation Bootstraps" is the logical consequence of thinking that cash and capital are interchangeable and, incidentally, that the sources of cash are inexhaustible.

Present Reluctance to Invest

Let's take a look at this process at work. There is such a mass of statistics and conflicting economic deductions available about what is happening that it seems almost hopeless to grasp any reliable trends. However, a few rather remarkable occurrences stand out.

The first is that, despite high levels of industrial production, people have become increasingly reluctant to contribute permanently to industrial capital.

The test of whether people will voluntarily place their money in the process is whether or not they do. The records against which this test may be made are not open to question. They are the record of sales of new securities through dealer organizations and the record of transactions in issued securities on the stock exchanges. These records show an increasing reluctance to buy new common and preferred stocks. They show a generally diminishing interest in either acquiring or disposing of stocks which have been issued in the past despite the low prices at which these shares are offered in relation to earnings.

During the past four years the percentage of new capital raised by selling common and preferred shares has fallen from about 52% to about 20% of the total.

During the past four years the annual volume of stock transactions on all exchanges has fallen from around 800 to about 550 million shares and in the first quarter of this year it was at an even lower rate.

The second notable fact is that during the same four years people have had available record amounts of unused cash on deposit in banks and have been willing to buy increasing amounts of life insurance and corporate bonds. Significantly, during these years there has been heavy investment in tax exempt municipal securities.

The Impact of Taxes

Certainly there are many reasons to explain why, with money available and business at record levels, people have shown a decreasing willingness to furnish equity capital. I do not think that the least of these reasons was taxation.

If someone had designed the tax structure to stifle the process of converting savings into permanent capital, he could not have done a better job than has been done. The major source of equity capital has been, and probably must be, the savings of people in the so-called "upper income brackets," that is with incomes above \$5,000 a year.

The income tax rates have their heaviest personal impact on this minority of the population and this minority of the national income. They have made an investment in common stock unattractive to the people on whom we all rely for such funds. If a venture is highly successful and the company pays out 40% in dividends, as the average company did in 1948, the "take home" income after taxes will be too low to warrant the risks involved.

Suppose each share in the venture cost \$100 and the company, after paying the corporate income tax, still showed earnings of \$14.50 a share and paid out 40%, or \$5.80, in dividends. The man who risked the \$100 seems to receive a yield of 5.8% on his investment; but that is before he pays his taxes. If his income, before this dividend, was \$10,000 his yield drops to less than 4%. If his income was \$50,000 his yield falls to less than 2%. Why should he take the risk of contributing permanently to the formation of capital when he can get the same or a better income from a temporary contribution?

In 1913, when the income tax amendment to the Constitution was under discussion, one Senator was silenced by the Chair for being frivolous in his arguments. He had criticized the amendment with the comment that it could be used to impose a tax as high as possibly 25% of a man's income. Today, some of us are considered utterly unrealistic when we plead that for the sake of the system, if not for the sake of the individual, everybody should be allowed to keep at least 50 cents out of every dollar he earns.

Money is not capital and it must take a lot of risks in the process of becoming capital. In the long run it will only be committed permanently to those risks if a real inducement exists. Owners of money are like mules in this respect and no amount of beating them on the behind can ever equal the effect of a carrot out front. The present tax system doesn't mean to recognize that a large carrot is necessary.

The worst part about these twin problems of capital and taxes is that they are so clouded by ignorance that many of the legislators who do understand them are afraid for political reasons to even try to bring them into balance.

The Problem of Jobs

That remark brings me rather late, but rather neatly I hope, to my third apple—Jobs.

I don't need to spend any time proving that capital and jobs have the same relationship as parents and children. We have all seen the figures about what a lot of capital stands behind each job in every industry. We know that even an individual who wants to employ himself must save and train and plan, that is, create capital, before he can give himself the job. We can take it for granted that "no capital—no job" is a simple, factual statement.

What is not so generally known is that the principal beneficiaries of capital are those who hold the jobs it makes available. The American Economic Foundation has figured out that the total national income goes 90% to employees and individuals who are self-employed; that is, whose jobs are provided by their own or someone else's capital. Only 10% goes to those who own capital, which others pay to use, and of these capital payments 70% goes to people receiving less than \$5,000 a year. Another way of pointing up who benefits from the

system is to cite the fact that over 80% of the entire national income from all sources goes to people receiving less than \$5,000 a year.

When I add that all these figures are based on income before taxes, we get some idea of how different capitalism is in fact from the capitalism described by our communist enemies and by domestic demagogues.

No politician can materially help this situation until the jobholders who are the voting majority and the chief beneficiaries of the system realize the stake they have in the constant building of new capital.

Conclusion

It is up to all of us to study and understand the role which capital plays in our country, what makes it grow and what stunts its growth. If this study and knowledge bring you to the same conclusions I have reached, then it is equally your duty to find and convince people who disagree with you, not those who already agree. We must make them realize:

First: That capital is not mere cash, but a combination of tools and machinery and factories which a lot of money must be risked to buy and which can only be assembled with the expenditure of immense amounts of time and training and wise and lucky decisions which mere money can't buy;

Second: That the money which is an essential element in growing this thing called "capital" must come in large part from those whose incomes permit them to take the risks involved and they cannot be expected to put it up unless they can hope for real "take home" profits if they ride out the risks and win;

Third: That the overwhelmingly largest portion of the wealth produced by our capitalistic system goes to the employees of the system and not to the people who own the capital; and

Finally: That any tax structure based on the political nonsense called "Soaking the Rich" takes away the incentive to risk money in building capital and its end result is to "Sink the Jobholder."

You have my apples, Atlanta. Capital which creates Jobs. Capital and Jobs without which there couldn't be Taxes. And Taxes which can and do suffocate both Capital and Jobs.

If I have caught you with these apples, I reluctantly waive my claim on condition that you marry any statesman who will keep these three subjects in their proper balance.

Corlies & Booker to Admit

Joseph P. Shea will acquire the New York Stock Exchange membership of Robert Howard Whiton on May 19 and will become a partner in Corlies & Booker, 40 Wall Street, New York City, members of the New York Stock Exchange.

Now Belanger, Inc.

MONTREAL, QUE., CANADA. —The firm name of Paul Gonthier & Compagnie, Ltd., 276 St. James Street, West, has been changed to Belanger, Inc. There has been no change in the officers of the firm.

With Wm. R. Staats Co.

(Special to THE FINANCIAL CHRONICLE)
SAN FRANCISCO, CALIF. — Ruth C. Blank has joined the staff of William R. Staats Co., 111 Sutter Street.

Money Madness—Is There a Cure?

(Continued from page 19)

machine or mechanism. A good illustration is that there never has been anything inherently defective about the gold standard mechanism. The difficulty which makes so many people believe that it is defective as a mechanism is really that society has wars which wreck it and many other fine mechanisms. In fact most of the world in the discernible future will not return to a gold standard. Yet our gold system in the United States today is in the enviable position of being envied by every nation on earth. Moreover though it was fashionable to belittle the gold standard in the 1930s, as a result of the war's experience, we have come to a new high appreciation of the service our gold rendered us. Never in a \$400,000,000,000 war was there a question about our ability to finance any project for winning the war, however high might be its cost. To be sure, our productive power was of first importance here. Our maintained liquidity, however, was throughout the war the envy of every other nation. This envy was frequently given expression by The London "Economist." Today the dollar is still hard. In war it gave us so little concern that it released all our energies for war's destructive work.

Problem of Wise Money Management

I am sure, though my topic has to do with madness and its cure, that I make no mistake in interpreting your wishes, and those who originate this series, that I am wanted to tell how we can get sanity or stability and what money management can wisely do to help us.

The requirements for economic stability are severe indeed. They are so severe that they cannot be wholly achieved. Therefore ameliorative measures are always going to be needed. Take for example today's widely discussed farm policy proposals. We have farm price and income aids because it is our society's wish not to allow competitive agriculture to withstand the onslaught of the forces which its own most nearly perfect competition creates in a society which lacks such perfection of competition in many other areas. Our society now has the means to give all groups a good minimum defense against untempered economic blasts. For agriculture the ways and means to do this are steadily explored. But as we proceed in other areas and particularly for the central feature of our modern industrial economy, money is to play an important part.

Before turning to the requirements for "a cure for money madness," a striking term for economic rather than emotional instability, I want to fulfill the inherent promise of my earlier statement that out of the experience of two wars and one monetary accident we have learned the art of control of money to serve us as far as our wisdom may direct. In the first war our government incurred total budget deficits of \$22,000,000,000. Those deficits were easily financed but much less easily financed than deficits of ten times that total in the second war.

In terms of wholesale prices, that magical addition to the country's total stock of spendable funds produced an inflation which heightened the price level from an index of 100 in 1913 to a level of 195 in 1918. Then starting early in 1919 our bankers next so rapidly expanded private credit that in the short space of nine months their autonomous extensions of private credit enlarged the credit of the type the banking system creates by no less than one-quarter. That 25% expansion in private credit brought a still further in-

flation of the wholesale price level from 195 to its peak of 245 reached in May 1920.

That level in the now 150 years of our researched price history was our highest until last August. Then it was surpassed but only for a few weeks and by the very small margin of 3%. I draw no conclusions nor assess any responsibility for the consequences of that first war period and its aftermath. I simply record the fact that we were "going on our way" in learning the art of mastery over money. We had used money for war. Thereby for modern times we had learned a new technique.

The depression of the early 1930s deepened with a ferocious intensity to send our index of industrial production to a level of 54 (based on the middle 1920s as 100). The similar production index in Germany fell to 53. Our two countries had no rivals for the complete stages of their industrial paralysis. Should anyone wonder why industrialists supported the Nazi regime in Germany the index of corporate industrial profits is evidence. That index fell to a figure minus by more than 150% in 1931 and more than 100% minus in 1932. As prices in the United States had fallen by 40% from the levels of the decade of the 1920s, we groped for more radical and drastic means to mitigate the harsh effects of a near-wrecked economic machine.

Money Magic

Money magic was now resorted to on the prescription of a super-intellectual salesman, Professor George E. Warren, agricultural economist of Cornell University. His simple thesis was that if we were insistent upon remaining on a gold standard we had better fast learn how to make gold adaptable in quantity for our needs. Our needs were for full economic output of constant prices. Professor Warren's reasoning, I heard him give it in detail before the Senate Committee on Banking in January, 1934, was to reduce the gold content of the dollar. It was to be reduced sufficiently so that we might have enough more dollars for reserve needs for a large enough monetary circulation to sustain full economic output at a maintained and desirable output and at normal and stable price levels. The result was that we recounted our stock of gold from \$4,000,000,000 to \$7,000,000,000. We did so by the simple device of making each dollar appropriately and accordingly smaller. "Appropriately smaller" proved to be 40.94% smaller. But here an accident (or miscalculation as one may prefer) occurred. What had not been reckoned upon was the force of this change. To see that force the change must be stated in another way.

A restatement of the change in the gold weight of the dollar to 59.06% of its former weight, maintained then for precisely a century, is given by the simple statement that we now valued gold at \$35 an ounce instead of its century old value of \$20.67. Thus in the effort to make a larger reserve of gold out of our own stock, we of necessity had increased the price we would pay for all gold from other countries by no less than 69%. We did that at a time when our own wholesale price level was reduced by more than a third of the 1920 level and when common stocks for example were selling at prices of less than one-fifth of their 1929 quotations. Chrysler common, for example, since split in two and now selling at about 55, sold as low as 5½ during this period of madness in things economic.

Our madness was evidenced by our placing upon the bargain counters material wares at a dis-

count of a third, our agricultural and food products were then being sold at a discount of about 50%, and our equity securities at an enormous decline with many fair grade bonds, soon re-financed at about 4% rates of interest, then being sold to yield 8 to 10%. These bargains were offered to all comers. The rest of the world had far more confidence in us than we had in ourselves. The bargain prices were accompanied by our offer to pay a 70% increased price without limit for all the gold the world could garner with which to pay for American bargains.

Madness! No doubt of it. The final effect was that our gold stock was increased from \$7,000,000,000 to \$17,000,000,000. The world, at our insistence, increased its rate of gold mining four times in value and more than twice in quantity. We had Professor Frank Graham's "golden avalanche"—an accident of colossal proportions.

That avalanche created what the London "Economist" has since termed "the impregnable liquidity of the United States."

Gold was attracted to the United States (1) by the high price of \$35 an ounce we were now willing to pay for it and (2) by the very low prices at which our commodities and securities could be bought with that gold. At the same time gold was increasingly being repelled from Europe because of the increasing political and therefore economic security there. In late 1939 and in 1940, after the outbreak of war in Europe, almost \$6,000,000,000 more in gold came to the United States. This, together with the net import of another billion dollars since 1941, has given us a total gold stock now in excess of \$24,000,000,000. That is six times the amount we had at the time of the devaluation of gold very early in 1934. The accident of monetary devaluation, a phenomenon which happens less often than a visit of Hailey's comet, had now had its full and immense repercussions.

Mechanics in Creating Money

Before turning to the requirements for economic stability and what can be done to end money madness in the future I should like to give a brief demonstration of the mechanics involved in the creation of a large spendable sum to be placed at the disposal of the Federal Government. Let us assume that the Federal Government, for reasons we take for granted and do not inquire into, should require an additional \$50,000,000,000 to be available to it for the needs of its own house-keeping wisely or unwisely planned as the case might prove to be. There are several ways in which this money could be obtained. If it were needed with speed without awaiting a public campaign to sell a large share of so large an amount to the public, it could be got from the banks. The procedure for getting the money then would be as follows:

(1) The government could ask the banks to buy \$50,000,000,000 in bonds at interest rates that would induce a fair willingness on the part of the banks to add this amount of bonds to their portfolio.

(2) In return for its bonds, the government would secure a credit to its deposit account at the commercial banks.

(3) This deposit so speedily created could be spent for whatever purpose the government had in mind. That spending would enlarge the public's deposits at the banks.

(4) The spendable funds of the country now would be increased by \$50,000,000,000. For this amount of enlarged deposits, the banks would be required to have somewhat more than \$10,000,000,000 in

additional reserves based upon present reserve requirement which now average slightly more than 20%.

(5) This additional reserve requirement of the banks could easily be provided by the Federal Reserve System purchasing \$10,000,000,000 of government securities.

(6) Upon this purchase of government bonds in the public markets or from the banks (which would make the commercial banks' reserve requirements and bond purchase requirements only \$40,000,000,000, the commercial banks would be supplied with Federal Reserve credit adequate to sustain the increased volume of deposits which originated to their purchase of \$50,000,000,000 of government bonds.

(7) Because the Federal Reserve System has a reserve ratio twice its required legal minimum, no action would have to be taken to enlarge its reserves. Those reserves today are at an amount which is equal to about 50% of liabilities against which such reserves must be held. The legal minimum of that reserve requirement early in 1945 was reduced from 40% to 25%.

Thus we observe that we have full control over money in any amount contemplated as needed by sovereign government. Money can be made to serve whatever needs society would like to have it serve in whatever amount society needs.

To arrange to secure that amount of money without thoughtful planning and without a careful "sale" of the purposes for which the money is to be used would indeed be money madness.

Doing the operation clumsily would simply be a refined form of green-backism and would lead to an equally dangerous substitute for sheer printing press money, a crude form of money inflation. In fact, it was this kind of inflation which led Harry J. Scherman, head of the Book-of-the-Month Club to write one of the most widely circulated tracts against inflation of the war years. That tract was entitled "Dangerous Dollars."

Thus, we observe that money has come under our full control by virtue of a more complete knowledge of the processes and legal arrangements by which it comes into existence.

Now we can say then that our wartime and depression period experience with money yielded the lessons which have made money an agent in man's service. Money is not again to be an unassailable ritual imposed by unyielding forces in past custom and hollowed by tradition. But money madness can continue if money is not wisely used.

What Is Wise Use of Money?

That leads to the bunt question: What is wise use of money?

There can only be one wise use of money that society will sanction in the long run. This is not at all to say that society will have good luck in its experimentation to secure economic stability. It is to say that to secure economic stability it will try over and over again. In doing so it will use whatever money is needed for its experiments towards stability. It will use money freely.

What are the needs of economic stability?

The requirements for economic stability in our society, I have said before, are severe. They are severe because all at once we must obtain (1) a volume of purchase by consumers, (2) an export overseas, (3) a total of purchases by business for plant expansion and improvement (which we call "private investment"), each three of which will precisely and simultaneously equal the funds of each of these groups to purchase those goods and all at the same time in magnitude to employ all members

of society who wish employment. That is a triple set of requirements, triply-conditioned, because each, by pairs, must be in balance. To put the matter another way, the ability measured by their incomes and the willingness of consumers to spend rather than save must precisely equal the flow of consumers goods from the productive plants of the country. At the same time, the willingness of consumers not to spend, which is "to save," must be precisely offset by either investments or cash as the lodgement of such savings. If offset by investment, then business must invest precisely enough to absorb those savings. If offset by cash then the monetary system must create that cash to avoid a subtraction from the current supply of money.

Next, our international accounts must be in equilibrium, which means that our receipts from exports of goods and services must be matched by our outlays upon imports of goods and services, not sustained temporarily by gifts and grants, which it is not a part of our permanent policy to continue. Thirdly again, the expenditures of business for additional plant expansion must be precisely covered by the reserves and surplus earnings of business enterprises and, as mentioned above, by the funds businesses secure from savers. Finally, the expenditures and receipts of government must be in balance.

This amounts really to a rigid quadruple pair of "equations" which must be in equilibrium, each and all of which must be in equilibrium at all times. Not only that, they must all be in equilibrium without rising prices generally or without rising prices in the fields of consumer goods, export and import goods, and business investment goods.

You will see that maintaining economic stability is very far from easy. It is of the order of difficulty, I should estimate, of putting atomic energy to useful purposes. Lacking it, we shall resort to experiments, as wisely as we can make them, to achieve stability. Else we shall resort to what I am sure will once again very rightly be called money madness.

What are the experiments which we are most likely to undertake to secure the desirable goal of economic stability and to avoid the undesirable condition of its opposite economic instability or money madness?

Investment and Spending

I think the answer to this question is going to depend upon our analysis of the causes that initiate an unstable period in the economy. Those causes are most likely to be a failure of investment, or a reduced willingness of consumers to spend. After all, the consumer, however, is a rather steadily plodding person, who, except for periods when he is convinced that prices are going to rise or fall rapidly, can be depended upon to spend with a laudable consistency. It is in the area of business investment that our greatest damage to economic stability has always come in the past. That is why Professor Heller said we had deep depressions while on the gold standard.

Mr. Paul Hoffman in his University of Minnesota convocation address a year ago pointed out that there are \$70,000,000,000 of currently produced goods whose purchase could be postponable without any short-run damage to the "goods-welfare" of the American people. Postponing such purchases is the way we cause great damage to the "employment-welfare" of the American people. Such postponement of purchases is much the most likely to occur as the result of failure of business to invest at adequate rates to maintain high employment for the millions, 10,000,000 to 15,000,000 perhaps, engaged in the construction,

machinery, and investment trades. In fact, there are two reasons to expect postponement of purchases to occur on a bigger and grander scale than ever before:

First, the proportion of durable, i.e., "purchase postponable" goods in the total output of the economy is a larger fraction than ever before. That is the fraction which in a primitive, or Robinson Crusoe, economy had a value of zero. No time for unemployment in such an economy! Only an economy rich, especially rich in the production of durable goods, can afford economic instability and therefore is apt to suffer from money madness or other economic delusions such as single tax, social credit, and "soak the rich" ideas.

The second reason for expecting rather severe unemployment is that we have just completed what will soon be four years of intense effort to add to the durable wealth of the people of the United States. As a result, we are rich with new and better stocks of durable goods, particularly the new machines and new factories which so brightly mark the landscapes of the United States.

Therefore, I would certainly expect that with our next serious depression, we shall resort somewhat to money to means to sustain purchasers' incomes somewhat in relation to the then decline in incomes of consumers.

But much more striking action, I think, will be taken to sustain the rate of investment. If that investment by private industry cannot be maintained with such forms of government encouragement as then may seem desirable, government investment directly on its own account must be undertaken. It is in these areas of government investment that we must undertake a great deal of experimentation.

I am sure that is why only a day or two ago Senator Ralph E. Flanders said that "the cost of the proposed long-range housing problem was reasonable and entirely worthy of Republican support." That program provides for the construction of 810,000 public housing units during the next six years and also for a vast five-year slum clearance program.

Here, then, in the housing area is one form of investment which may be brought in to maintain economic stability to the end that we may avoid the economic instability which has brought on what we have in the series of lectures called "money madness." Other forms of investment and experimentation lie in the area of fine public roads, greatly improving present transport, and many other forms of development which will enrich the total plant we have for living, working and playing in the United States.

So we find that persistent experimentation in producing investment stability in the economy is the cure for economic employment instability. The details of the complete treatment are not wholly agreed upon by the diagnostic experts, but may I suggest that the madness we shall have if we ever cease this kind of experimentation in the United States will far outrank the money madness some will assert will come upon us if we undertake the experiments using mankind's greatest invention, money, to assist us on our way.

The State of Trade and Industry

(Continued from page 5)

steel capacity for the whole country. That much consumption is not in those combined areas, this trade authority declares.

One or two factors may keep the Chicago-Pittsburgh spread from being as great as it might have been under prewar conditions. One is the wider use of barge shipments by Pittsburgh mills to reach distant markets at rates that are competitive with rail shipment. A second factor reducing the discrepancy between competing mills, "The Iron Age" concludes, is the use of truck shipments. But truck shipment of steel may be approaching a limit.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 96.2% of capacity for the week beginning May 9, 1949, as against 97.3% in the preceding week, or a decline of 1.1%.

This week's operating rate is equivalent to 1,773,500 tons of steel ingots and castings for the entire industry, compared to 1,793,700 tons a week ago, 1,828,800 tons, or 99.2% a month ago, and 1,699,700 tons, or 94.3% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS SHOW FURTHER SLIGHT RISE IN LATEST WEEK BUT HOLD BELOW LIKE WEEK OF 1948

Loadings of revenue freight for the week ended April 30, 1949, totaled 785,444 cars, according to the Association of American Railroads. This was an increase of 16,108 cars, or 2.1% above the preceding week. It represented a decrease, however, of 105,671 cars, or 11.9% below the corresponding week in 1948 and a decrease of 97,130 cars or 11% below the similar period in 1947.

ELECTRIC OUTPUT CONTINUES TO DECLINE FOR 14th CONSECUTIVE WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended May 7, was estimated at 5,283,592,000 kwh., according to the Edison Electric Institute. This represented a decrease of 20,249,000 kwh. below output in the preceding week, 196,328,000 kwh. or 3.9% higher than the figure reported for the week ended May 8, 1948 and 630,455,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT THE PAST WEEK CONTINUED TO FALL DUE TO STRIKES

Production of cars and trucks in the United States and Canada for the past week declined to an estimated 128,185 units, compared to 136,433 (revised) units in the week preceding, due to continued labor troubles, "Ward's Automotive Reports" states.

Output this week is expected by Ward's to drop still further as Ford's branch assembly plants begin to close. The lost production at Ford plants will more than offset the effect of the re-opening of Hudson and Nash plants on Monday, the agency said. Output in the similar period a year ago was 84,864 units and for the like week of 1941, 132,380 units.

Last week's output consisted of 99,207 cars and 22,638 trucks built in the United States and 3,980 cars and 2,360 trucks in Canada. Total output passed the two million mark last week, with U. S. plants accounting for 1,597,884 cars and 460,325 trucks and Canadian plants 51,658 cars and 34,489 trucks for the year to date.

BUSINESS FAILURES EASE IN PAST WEEK

Commercial and industrial failures fell to 193 in the week ended May 5 from 204 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties, however, continued well above the corresponding 1947 and 1948 weekly levels of 70 and 108 respectively. They did not approach the prewar total of 208 registered in the comparable week of 1939.

Failures involving liabilities of \$5,000 or more decreased to 158 from 163 last week; but remained considerably higher than a year ago when 89 casualties of this size occurred. Small failures with liabilities under \$5,000 fell to 35 from 41, being almost twice as numerous as in the similar week of 1948.

Manufacturing and construction casualties declined last week, but in retail and wholesale trade, and in commercial services, failures increased somewhat. In manufacturing and wholesaling failures were about 50% above a year ago, while casualties in retailing, construction and commercial services were approximately twice those of the similar week in 1948.

FOOD PRICE INDEX REACTS TO HIGHER LEVEL IN LATEST WEEK

Reversing its downward movement, the Dun & Bradstreet wholesale food price index rose 0.7% last week to stand at \$5.71 on May 3, from \$5.67 a week earlier. The latest index represents a drop of 17% below the \$6.88 recorded on the corresponding date a year ago.

The index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX REACHES NEW 1949 LOW LEVEL ON APRIL 30

The Dun & Bradstreet daily wholesale commodity price index continued downward during most of the past week, but turned slightly upward at the close. The index fell to a new 1949 low of 247.29 on April 30 and finished at 248.54 on May 3. This compared with 247.80 a week previous, and with 283.00 on the corresponding date a year ago.

Grain markets were unsettled last week. Prices generally moved sharply lower, especially in the futures markets.

The decline was attributed mainly to remaining large supplies of most grains, fears that the government would cease buying of wheat after April 30 and the possibility of increasing competition from Russian wheat with the lifting of the Berlin blockade.

Trading in bakery flours last week was again very quiet with sales confined to small lots for immediate requirements except for

some moderate amounts of hard Winter and Spring wheat flours sold to chain bakers for shipment during the first half of May. Lack of buying interest was attributed to the favorable outlook for the new Winter wheat outlook and reports of lagging sales of bakery products.

Domestic business in lard was moderately active and prices developed further strength, aided by liberal trading in lard futures for foreign account. In the Chicago livestock market, hog prices continued easy, touching new lows since October, 1946. Hog values fell about \$3 per hundredweight during the month of April and at one time came close to the government support level. Fed woolled lambs which sold at a record high of \$32.25 a month ago were selling around \$29 at the end of April. Cattle prices held comparatively steady throughout last month. Cottonseed oil was somewhat stronger at the week-end, reflecting reports of increased export interest in refined vegetable oils.

After a firm opening in which spot cotton prices reached the highest levels of the season, the market turned downward and closed about 70 points lower for the week. Strength in early dealings largely reflected active short covering in the May contract.

Declines in the latter part of the week were mostly induced by weakness in grains, a slackening in short covering operations and the halting of cotton shipments to China by the ECA.

Trade inquiries were fairly numerous, but mills continued to take only limited quantities for nearby needs. Trading was moderately active early in the week but slackened in the latter half of the period.

Total sales in the ten spot markets were reported at 111,900 bales during the latest week, compared with 92,500 the previous week and 64,500 in the like week a year ago. The mid-April parity price for cotton was announced at 30.50 cents a pound, unchanged from a month earlier.

Entries of cotton into the 1943 government loan during the week ended April 21 were placed at 35,925 bales, bringing total entries for the season through that date to 5,109,773 bales.

Repossession during the same week of 52,301 bales brought the season's total to 755,953, leaving a net stock in the hands of the CCC of 4,353,820 bales.

RETAIL AND WHOLESALE TRADE STIMULATED BY PROMOTIONAL SALES THE PAST WEEK, BUT VOLUME CONTINUES MODERATELY UNDER YEAR AGO

Spurred by favorable weather and by seasonal promotions, consumers bought slightly more than in the previous week. Aggregate retail dollar volume in the period ended on Wednesday of last week was slightly less than that of the corresponding week in 1948, Dun & Bradstreet, Inc., reports in its current summary of trade. Most shoppers continued to seek good quality merchandise at moderate prices.

Following the post-Easter drop of the previous week, retail apparel volume rose moderately, but it was slightly below that of a year ago. Shoppers' interest in cotton dresses, lightweight suits and short-length coats rose slightly. Lingerie and accessories were in increased demand as many shoppers sought Mother's Day gifts. There was a slight rise in the interest in men's suits.

Consumer buying of food continued at a high level last week, though total dollar volume was almost unchanged from that of the comparable week last year.

Many housewives continued to shun high-priced items. Meat was in substantial demand with dairy products and poultry selling well. Reduced-price frozen foods were sold in an increased volume. The interest in canned goods remained close to that of the similar week in 1948 and demand for candy rose moderately.

Shoppers' interest in furniture and housewares increased a trifle and it was moderately less than that of the comparable week last year.

Promotions helped to stir consumer interest in many sections with demand continuing to center on occasional items.

Fiber rugs, lamps and tables were sought by many shoppers. There was a moderate rise in the demand for cutlery, china and kitchenware. The retail volume of hardware, paint and decorating materials remained sizable.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1 to 5% below that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England, East and Midwest down 1 to down 5, South down 4 to down 8, Northwest down 1 to up 3, Southwest unchanged to down 4, and Pacific Coast down 1 to down 4.

As many buyers displayed increased interest in seasonal goods during the week, the dollar volume of wholesale orders rose slightly, but it was moderately less than that of the comparable week in 1948. The number of buyers attending many wholesale markets dipped noticeably the past week. They were, however, slightly above that of the similar week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended April 30, 1949, decreased by 4% from the like period of last year and compared with a decrease of 10% in the preceding week. For the four weeks ended April 30, 1949, sales registered no change from the corresponding period a year ago, but for the year to date declined 3%.

A seasonal expansion in retail sales occurred here in New York the past week, but notwithstanding this fillip, dollar volume held below the corresponding period of last year.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to April 30, 1949, declined by 8% from the same period last year. In the preceding week a decrease of 10% was registered below the similar week of 1948. For the four weeks ended April 30, 1949, a decrease of 2% was reported under that of last year and for the year to date volume decreased by 5%.

Trusts Show Caution in First Quarter

(Continued from page 2)

the additions to portfolios. Outstanding management commitment in the group was made by four funds sponsored by J. & W. Seligman & Co. Total investment exceeded \$5 million, of which \$1½ million represented a new excursion into this field by National Investors. The management notes, in investing 10% of the net assets of this trust in 10 utility companies, that they, "... selected after careful study, represent all of the important and profitable phases of the utility industry, as well as wide diversification of managements and localities. ..."

Illinois Power was one of the two outstanding favorites in this group, nine companies purchasing a total of 49,700 shares; four of these were new commitments. Only one fund sold this stock and that was the Lehman Corp. which eliminated a block of 5,300 shares from its portfolio. The other issue

to lead in popularity was Central and Southwest Corp.; nine funds purchased a total of 86,620 shares. Eight trusts bought 35,000 shares of United Light and Railways, four of these making new additions to portfolios. New York State Electric & Gas was a new security added during the quarter to seven portfolios for a total of 41,850 shares through rights issued by General Public Utilities. Seven trusts also purchased Public Service of Indiana, four adding this issue to their assets for the first time. Cleveland Electric Illuminating was bought by six companies, largely through rights, while a seventh eliminated a small lot from its holdings. The same number of funds purchased stock of Wisconsin Electric Power through rights although four more sold 31,992 shares. Four investment companies bought Brooklyn Union Gas, Commonwealth and Southern, Electric

Bond and Share, General Public Utilities, Gulf State Utilities and Virginia Electric and Power; four managements also sold the latter issue. Commonwealth Edison, Indianapolis Power and Light, Niagara Hudson Power, North American Co. and Public Service Electric and Gas were each added to three portfolios. Although three funds also purchased 4,500 shares of American Gas and Electric, two sold 4,400 shares of this issue. Northern States Power was lightened in three portfolios while four trusts eliminated Madison Gas and Electric, received as a distribution in the previous quarter from American Light and Traction. 121,000 shares of this latter company were added to 16 portfolios, but almost half represented a distribution from United Light and Railways.

National Biscuit was most heavily bought among equities of companies processing food products,

six trusts purchasing a total of 19,200 shares; half of these were represented by new commitments. General Foods was also well liked, four funds making fresh additions to portfolios while a fifth increased present holdings. Wellington Fund eliminated a lot of 14,000 shares from its investments. Three managements added Corn Products Refining while a fourth eliminated this company from its portfolio. National Dairy and Swift & Co. were each purchased by two funds, 29,800 shares of Standard Brands were liquidated by two trusts and another purchased a small lot of 200 common. United Fruit was sold by four companies, but two others increased holdings while a third made a new commitment.

Montgomery Ward Reactions

Purchases of equities in retail trade and chain stores increased 33½% over those of the previous

quarter. Four issues continued to be bought which were also liked in the December period. Transactions in Montgomery Ward invite particular attention because of the recent disturbance in management personnel. Ten funds made total purchases during the quarter of 5,500 shares. Two of these, representing small new commitments of 200 shares each, were made by Republic Investors and the Nesbitt Fund. Others adding to shares already held were National Shares Corp., American Business Shares, Commonwealth Investment Co., Delaware Fund, Loomis-Sayles Mutual, First Mutual Trust Fund, Boston Fund and Shareholders Trust of Boston. Loomis-Sayles eliminated Ward from the portfolio of its Second Fund and Calvin Bullock cleaned it out of Bullock Fund and Nation-Wide, while still holding 15,000 shares in Dividend Shares. Fidelity lightened a bit with a sale of 200.

Sears was also added to six portfolios, while only one management sold. Popular among the department stores as in the previous year was Federated Department Stores. Four funds made purchases of 10,400 shares. Penney also continued in favor, three trusts adding 8,200 shares. New interest during the present quarter was shown in the equities of Safeway Stores and Woolworth, both reputedly good depression-proof storm cellars. Four managements bought a total of 12,700 shares of the latter issue, one of these lots representing a new commitment. Three purchases were made of Penney. Bond Stores continued to be liquidated, one company cleaning out a block of 10,000 shares, while another lightened holdings by 3,000. Associated Dry Goods was also eliminated from two portfolios. One trust completely sold out a block of 10,000 Gimbel. Opinion was apparently divided on Allied Stores.

Tobaccos Favored

All four of the major tobaccos were favored by managements. Six funds purchased a total of 17,500 shares of Reynolds, one of which was a new commitment. A like number of trusts bought American Tobacco. Liggett and Myers was added to one portfolio's shares and introduced as a new issue in two others. 19,600 shares of Philip Morris were added by three more companies.

Also considered as good recession protectors, many individual insurance stocks found purchasers among the trusts. Single commitments were made in Aetna Insurance, Continental Casualty, Fidelity-Phoenix Fire, Fireman's Fund, General American Insurance, Hartford Fire, Home, New Amsterdam Casualty, Providence Washington and Phoenix Insurance.

Finance Co. Stocks Bought

Five managements made purchases of C. I. T. Financial; there were no sales. Associates Investment also was liked by two trusts. A small lot of 200 shares of Commercial Credit was bought, while two trusts lightened holdings. Sole preference among banking institutions was registered for Marine Midland, three companies adding 20,200 shares.

Buying of Aviations

Buying in the aviation group was concentrated on a few individual issues. United Aircraft continued an outstanding favorite, as in the previous quarter, eight trusts purchasing a total of 16,000 shares. The same number of funds committed themselves for 12,400 shares of Bendix. Sperry was bought by three managements. Douglas, which was sold in the December period, found present favor with three more trusts. Among the transport com-

Balance Between Cash and Investments of 61 Investment Companies

End of Quarterly Periods December, 1948 and March, 1949

	Net Cash & Gov'ts Thousands of Dollars		Net Cash & Gov'ts Per Cent		Invest. Bonds & Preferred Stocks Per Cent		Com. Stks. Plus Lower Grade Bonds & Pds. Per Cent	
	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.	Dec.	Mar.
Open-End Balanced Funds:								
American Business Shares.....	7,549	7,580	23.2	23.3	15.2	16.9	61.6	59.8
Axe-Houghton Fund.....	907	1,103	11.4	13.6	2.9	2.8	85.7	83.6
§Axe-Houghton "B".....	403	396	19.8	17.5	11.8	12.1	68.4	70.4
Boston Fund.....	4,593	4,306	13.6	12.0	23.9	23.8	62.5	64.2
Commonwealth Investment.....	315	467	5.8	7.7	22.7	24.6	71.5	67.7
Eaton & Howard Balanced.....	4,010	4,211	10.8	10.6	25.3	25.9	63.9	63.5
Fully Administered Shares.....	681	559	18.0	14.5	17.9	18.9	64.1	66.6
General Investors Trust.....	193	223	10.6	12.3	7.9	8.0	81.5	79.7
Investors Mutual.....	6,551	7,152	5.2	5.3	33.0	32.0	61.8	62.7
Johnston Mutual Fund.....	81	95	22.2	23.9	17.0	15.9	60.8	60.2
National Securities—Income.....	477	396	4.0	3.2	15.5	14.9	80.5	81.9
Nation-Wide Securities.....	442	734	4.0	6.3	31.4	26.9	64.6	66.8
Nesbitt Fund.....	24	38	5.9	8.5	20.1	21.4	74.0	70.1
George Putnam Fund.....	4,877	4,332	18.3	15.3	17.7	18.5	64.0	66.2
Russell Berg Fund.....	448	300	34.3	22.4	15.1	23.5	50.6	54.1
Scudder Stevens & Clark.....	3,235	+	13.3	+	25.8	+	60.9	+
Shareholders Trust of Boston.....	472	258	13.6	7.5	32.4	32.9	54.0	59.6
Wellington Fund.....	8,316	9,629	13.0	13.5	28.6	23.9	58.4	62.6
Whitehall Fund.....	45	55	6.8	6.6	43.9	41.5	49.3	51.9
Wisconsin Investment Co.....	518	232	30.8	13.4	1.1	6.9	68.1	79.7
Open-End Stock Funds:								
Affiliated Fund.....	4,912	7,099	6.5	8.7	None	None	93.5	91.3
Bowling Green Fund.....	169	103	30.7	18.9	None	None	69.3	81.1
Broad Street Investing.....	566	718	6.0	7.5	5.5	5.5	88.5	87.0
Bullock Fund.....	286	414	5.0	7.0	None	None	95.0	93.0
Delaware Fund.....	125	144	8.9	8.6	2.7	2.2	88.4	89.2
Dividend Shares.....	6,273	6,423	10.5	10.4	None	None	83.5	89.6
Eaton & Howard Stock.....	137	230	6.7	10.7	9.7	5.5	83.6	83.8
Fidelity Fund.....	2,637	2,991	13.7	14.5	None	0.3	86.3	85.2
First Mutual Trust Fund.....	81	77	2.5	2.5	13.1	18.5	84.4	79.0
Fundamental Investors.....	1,771	3,052	5.5	9.0	None	None	94.5	91.0
General Capital Corp.....	740	341	7.9	3.8	1.0	0.3	91.1	95.9
Incorporated Investors.....	2,670	4,295	4.3	7.0	None	None	95.7	93.0
Institutional Shares Stock & Bond Gr.....	201	193	9.3	9.0	None	None	90.7	91.0
Investment Co. of America.....	1,122	1,147	20.8	21.3	None	None	79.2	78.7
Investors Management Fund.....	527	641	5.8	7.2	None	None	94.2	92.8
Knickerbocker Fund.....	204	204	2.6	2.4	None	None	97.4	97.6
Loomis-Sayles Mutual Fund.....	1,321	1,812	27.5	36.5	2.5	3.5	70.0	60.0
Loomis-Sayles Second Fund.....	1,921	2,961	24.0	36.5	3.0	4.0	73.0	59.5
Massachusetts Investors Trust.....	7,841	10,142	3.8	4.7	None	None	96.2	95.3
Massachusetts Investors 2nd Fund.....	824	600	5.2	3.8	None	None	94.8	96.2
Mutual Investment Fund.....	123	51	20.2	8.2	17.9	17.6	61.9	74.2
National Investors.....	405	479	2.6	3.1	None	None	97.4	96.9
New England Fund.....	491	466	17.9	17.0	4.0	3.8	78.1	79.2
Republic Investors.....	121	130	8.9	8.9	None	None	91.1	91.1
Selected American Shares.....	1,566	2,403	10.7	16.7	None	1.2	89.3	82.1
Sovereign Investors.....	14	15	3.4	3.8	12.5	10.8	84.1	85.4
State Street Investment Corp.....	9,743	13,072	15.3	20.4	None	None	84.7	79.6
Wall Street Investing Corp.....	237	378	21.3	32.2	None	None	78.7	67.8
Closed-End Companies:								
Adams Express.....	6,817	5,923	17.8	15.6	None	3.0	82.2	81.4
American European Securities.....	1,206	1,905	15.2	22.9	3.4	7.6	76.4	69.5
American International.....	3,635	2,833	20.7	16.2	None	4.3	79.3	79.5
Blue Ridge Corp.....	6,248	7,425	21.7	24.2	2.9	0.9	75.4	74.9
Capital Administration.....	426	631	7.6	8.9	9.9	10.4	84.1	80.7
General American Investors.....	7,215	7,305	20.7	20.8	0.5	0.5	78.8	78.7
General Public Service.....	494	439	11.7	10.3	None	None	88.3	89.7
Lehman Corporation.....	19,553	21,129	21.5	22.9	1.5	0.7	77.0	76.4
National Shares Corp.....	2,306	1,772	25.5	19.3	6.8	6.9	67.7	73.8
Selected Industries.....	1,839	2,492	4.3	5.8	13.6	12.6	82.1	81.6
Tri-Continental Corp.....	3,325	4,521	5.2	7.0	12.3	12.6	82.5	80.4
§§U. S. & Foreign Securities.....	1,263	2,103	3.9	6.5	None	None	96.1	93.5
§U. S. & International Securities.....	2,737	3,314	7.6	9.1	None	None	92.4	90.9

*Investment bonds and preferred stocks: Moody's Aaa through Baa for bonds; Fitch's AAA through BB and approximate equivalents for preferreds. †No interim reports issued to stockholders on this date. ‡Portfolio exclusive of securities in subsidiary or associated companies. §December quarterly figures revised.

S U M M A R Y

Change in Cash Positions of 63 Investment Companies

Open-End Companies:	Plus	Minus	Unchanged	Totals
Balanced Funds.....	10	7	3	20
Stock Funds.....	17	4	7	28
Closed-End Companies.....	7	5	3	15
All Companies.....	34	16	13	63

panies, Eastern and United were given a little attention while Northwest Airlines was eliminated from two portfolios. Opinion was divided on American Air Lines and Pan American.

6,300 shares of General Motors were added to five portfolios, two being new additions. There was a division on Chrysler, six purchases offsetting a like number of sales. Borg Warner was the most heavily sold among equipment makers, five managements liquidating 11,400 shares. Doehler-Jarvis and Eaton Manufacturing were also disposed of, but Auto-Lite found two buyers. As in the preceding three months, purchasers of Thompson Products balanced sellers.

Liquidation of Pepsi-Cola evidently was completed except for the one lot of 20,000 shares eliminated by Incorporated Investors. Canada Dry was sold by two trusts. Otherwise, activity among the beverages was negligible. Electrical equipments in general were mixed. The two big factors in the industry, General Electric and Westinghouse, were each purchased by five managements, two of which made new commitments in both companies. Sylvania Electric was also fairly well bought, but Master was liquidated by three trusts. There were scattered individual sales among several other issues.

Buying slightly outweighed the selling of oil issues. Although earnings may be off for the year to the extent of 25% as predicted by some authorities, it is felt that lessened capital expenditures will still permit maintenance of present dividends without the impairment of cash positions. Phillips Petroleum was the leading favorite, eight managements making purchases in spite of the recent drop reported in March quarter profits. However, five funds liquidated a total of 33,100 shares. Cities Service found a new berth in six portfolios while a seventh fund added to a lot already held; there were no sales. Also well-liked by six managements was Standard Oil of Indiana; there were additions of 19,000 shares. The same number of trusts bought Texas Company. Three funds made fresh commitments in Amerada and, although a similar number of managements made light purchases of Standard of Jersey, eight funds disposed of over 20,000 shares. Also unpopular during the period was Standard Oil of Ohio, four companies lightening holdings. Opinion was evenly divided on Gulf, four managements buying and four selling. Similarly five purchases of Continental offset a like number of sales. Four bulls and four bears also matched each other in transactions of Standard of California.

Natural Gas issues have not outworn any of their popularity. Mississippi Fuel Corp. was a new favorite, 106,012 shares finding a place in eight portfolios. Five managements also made additions of Columbia Gas; 69,100 shares were purchased during the quarter. Northern Natural Gas was also bought by three more funds. Pipe line issues continued to get attention. Among companies added were Texas Eastern Transmission, Panhandle Eastern, Tennessee Gas Transmission, Texas Gas Transmission and Transcontinental Gas Pipe Line.

Reversal in Metals

Among non-ferrous metals, Kennecott, which was the favorite in the preceding period, found sellers among five managements. This current disfavor was hardly outweighed by the six trusts making purchases. Five companies also disposed of Phelps Dodge, two eliminating this metal issue from their portfolios; there were four purchases. Activity in Anaconda was restricted to one lone sale of a lot of 500 shares. Aluminum of

(Continued on page 30)

Changes in Common Stock Holdings of 46 Investment Management Groups

(December 31, 1948-March 31, 1949)

Transactions in which buyers exceed sellers—or sellers exceed buyers—by two or more management groups. Issues more heavily sold are in italics. Numerals in parentheses indicate number of managements making entirely new purchases of an issue, or completely eliminating the stock from their portfolios.

—Bought—				—Sold—				—Bought—				—Sold—	
No. of	No. of			No. of	No. of			No. of	No. of			No. of	No. of
Trusts	Shares			Shares	Trusts			Trusts	Shares			Shares	Trusts
Agricultural Equipment:													
4(1)	4,000	Deere and Co.	100	1				6(3)	19,000	Standard Oil of Indiana	6,000	2	
None	None	J. I. Case Co.	1,750	2				2(1)	2,000	Tennessee Gas Transmission	None	None	
Auto & Auto Parts:													
2	6,200	Electric Auto-Lite	None	None				6(1)	15,245	Texas Company	13,820	2(1)	
5(2)	6,300	General Motors	7,100	2				3	14,200	Texas Eastern Transmission	None	None	
2	3,400	Doehler-Jarvis Corp.	5,850	4(1)				None	None	Lion Oil	3,700	2	
None	None	Eaton Manufacturing Co.	1,600	3(1)				None	None	Lone Star Gas	800	2(1)	
Aviation:													
8(2)	12,400	Bendix Aviation	None	None				3	4,585	Standard Oil of New Jersey	20,788.7	8(2)	
3(1)	800	Douglas Aircraft	100	1				None	None	Standard Oil of Ohio	7,608	4(1)	
3	4,600	Eastern Air Lines	34,900	1(1)				Petroleum and Natural Gas—(Concluded):					
3	3,300	Sperry Corp.	None	None				6(3)	19,000	Standard Oil of Indiana	6,000	2	
8(1)	16,000	United Aircraft	None	None				2(1)	2,000	Tennessee Gas Transmission	None	None	
2	2,600	United Air Lines	None	None				6(1)	15,245	Texas Company	13,820	2(1)	
None	None	North American Aviation	1,300	2				3	14,200	Texas Eastern Transmission	None	None	
None	None	Northwest Air Lines	9,000	2(2)				None	None	Lion Oil	3,700	2	
Beverages:													
None	None	Canada Dry Ginger Ale	5,400	2(1)				None	None	Lone Star Gas	800	2(1)	
Building Construction & Equipment:													
2	400	Congoleum-Nairn	None	None				3	4,585	Standard Oil of New Jersey	20,788.7	8(2)	
3(1)	14,200	General Portland Cement	None	None				None	None	Standard Oil of Ohio	7,608	4(1)	
4(2)	4,500	Lone Star Cement	None	None				Public Utilities:					
3(1)	1,700	Masonite Corp.	1,500	1				16(7)	121,244	American Light & Traction	44,400	2(1)	
3	2,100	Sherwin Williams	None	None				7(5)	20,539	Atlantic City Electric	1,608	3(3)	
4	3,168	United States Plywood	1,658	2				9(5)	86,620	Central & Southwest Corp.	1,000	1	
2	4,200	Flintkote Co.	4,500	4(1)				6(2)	22,800	Cleveland Electric Illuminating	200	1(1)	
None	None	Glidden Co.	890	4				3	7,100	Commonwealth Edison	None	None	
4(1)	16,300	Johns-Manville	15,600	6(2)				4(2)	158,100	Commonwealth & Southern	None	None	
None	None	Otis Elevator	5,700	2				4	50,700	Electric Bond & Share	7,600	2(2)	
None	None	Simmons Co.	7,400	3(1)				4	16,812	General Public Utilities	None	None	
Chemicals:													
2(1)	1,200	Air Reduction	None	None				4	25,543	Gulf States Utilities	27,300	1(1)	
2(2)	1,300	Allied Chemical & Dye	None	None				9(4)	49,700	Illinois Power Co.	5,300	1(1)	
3(1)	6,700	American Cyanamid	4,500	1(1)				3	20,613	Indiana Gas & Water	420	1(1)	
6(4)	6,650	DuPont	7,300	4				3(1)	6,500	Indianapolis Power & Light	None	None	
4(1)	24,900	Mathieson Chemical Corp.	2,600	2				2(2)	160,450	Kentucky Utilities	None	None	
5(3)	4,800	Monsanto Chemical	6,100	2(1)				7(7)	41,850	New York State Elec. & Gas	None	None	
1(1)	500	Dow Chemical	3,730	4(1)				3(3)	36,100	Niagara Hudson Power	None	None	
1	3,000	Hercules Powder	4,700	4(2)				3(2)	21,200	North American Co.	1,000	1(1)	
None	None	International Minerals & Chem.	3,000	2(1)				5(1)	13,374	Pacific Gas & Electric	4,261	2(2)	
Containers & Glass:													
4	7,200	Continental Can	600	2				2(1)	6,900	Public Service Co. of Colorado	None	None	
3(1)	5,600	Corning Glass Works	None	None				3(2)	11,000	Public Service Elec. & Gas	None	None	
Drug Products:													
4(1)	13,900	Colgate-Palmolive-Peet	None	None				8(3)	35,000	United Light & Rys.	None	None	
3(2)	8,900	McKesson & Robbins	2,000	1				6(2)	16,570	Wisconsin Electric Power	31,992	4(1)	
Electrical Equipment:													
5(2)	20,700	General Electric	20,700	3				2(1)	36,500	Wisconsin Power & Light	None	None	
3(1)	20,700	Sylvania Electric Products	6,500	1				None	None	Madison Gas & Electric	5,660	4(4)	
5(2)	10,300	Westinghouse Electric	7,700	3				1(1)	3,500	Northern States Power (Minn.)	19,250	3(1)	
None	None	Master Electric	4,600	3(1)				Radio and Amusement:					
Financial, Banking and Insurance:													
2	2,000	Amerex Holding Corp.	None	None				3(1)	9,000	Columbia Broadcasting "A"	None	None	
2	2,400	Associates Investment Co.	None	None				2	5,000	Twentieth Century-Fox	None	None	
5(1)	4,800	C. I. T. Financial	None	None				Railroads:					
4	4,055	Manufacturers Trust Co.	None	None				2	600	Atchison, Topeka & Santa Fe	None	None	
3(1)	20,200	Marine Midland	None	None				None	None	Atlantic Coast Line	2,300	2(1)	
Food Products:													
3(2)	5,000	Corn Products Refining	2,500	1(1)				None	None	Chicago, Rock I. & Pacific	1,500	2	
5(4)	14,000	General Foods Corp.	14,000	1(1)				1	100	Southern Pacific	17,400	3	
6(3)	19,200	National Biscuit	None	None				None	None	Southern Railway	3,100	2	
2(1)	5,700	National Dairy Products	None	None				Retail Trade:					
2(1)	14,600	Swift & Co.	None	None				4(1)	10,400	Federated Department Stores	200	1(1)	
Machinery and Industrial Equipment:													
4	1,700	Allis Chalmers	600	1				10(2)	5,500	Montgomery Ward	4,300	3(2)	
2(1)	2,200	Bullard Co.	None	None				3(1)	8,200	Penney	None	None	
2(1)	600	Ingersoll Rand	None	None				2(1)	10,500	Safeway Stores	None	None	
None	None	Babcock & Wilcox	3,250	3				6(1)	7,500	Sears Roebuck	9,000	1	
1(1)	4,500	Dresser Industries	25,100	5(3)				4(3)	12,700	Woolworth	900	1(1)	
Metals and Mining:													
2(1)	2,600	Consolidated Mining & Smelting	None	None				None	None	Associated Dry Goods	22,000	2(2)	
3	2,500	International Nickel	8,700	1(1)				None	None	Bond Stores	13,000	2(1)	
2	200	Newmont Mining	None	None				Rubber and Tires:					
4	6,400	St. Joseph Lead	3,300	2				2	3,400	Goodyear Tire & Rubber	None	None	
1	300	Aluminum Co. of America	2,400	4(1)				None	None	United States Rubber	6,000	2(1)	
1	7,000	American Smelting & Refining	2,100	3(1)				Steels:					
None	None	Hudson Bay Mining & Smelting	4,800	2				None	None	Armco Steel Corp.	1,800	3	
Office Equipment:													
7(1)	3,518 ^{3/4}	International Business Mach.	853 ^{3/4}	2				None	None	Republic Steel	6,080	4(1)	
None	None	Remington Rand	32,075	3(1)				2(1)	1,700	United States Steel	7,700	8(3)	
Petroleum and Natural Gas:													
3(3)	4,200	Amerada Petroleum	1,700	1				1	700	Youngstown Sheet & Tube	7,000	6(3)	
7(6)	12,300	Cities Service	None	None				Textiles:					
5(1)	69,100	Columbia Gas System	500	2				2(1)	2,600	J. P. Stevens & Co.	None	None	
2	9,640	Houston Oil, v.t.c.	None	None				1	500	Industrial Rayon	850	3	
5	12,816 ^{2/3}	Mission Development Co.	2,300	1				Tobaccos:					
8(8)	106,012	Mississippi River Fuel Corp.	None	None				6	6,100	American Tobacco	1,000	1	
2	1,600	Panhandle Eastern Pipe Line	None	None				3(2)	7,700	Liggett & Myers	400	1	
8(2)	14,800	Phillips Petroleum	33,100	5(1)				3(2)	19,600	Philip Morris & Co., Ltd.	2,000	1	
12(1)	7,860	Skelly Oil	655	4				6(1)	17,500	R. J. Reynolds	1,000	2(1)	

1 In part represents stock dividend of one share for each nine held.

2 1,693^{3/4} shares declared as 5% stock dividend.

3 Stock dividend from Mission Corp.—one share for each two held.

4 7,340 shares resulting from 10% stock dividend.

5 56,500 shares distributed as stock dividend by United Light & Railways at rate of one share for each five shares held.

6 Received in large part as dividend from American Gas and Electric.

7 2,613 shares represent stock dividend on Public Service of Indiana.

8 Liquidating dividend on Middle West Corp.—one share distributed per each two owned.

9 Includes stock purchased through rights.

10 Purchased through rights issued by General Public Utilities.

NOTE—This survey covers 63 trusts but purchases or sales of trusts sponsored by one management group are treated as a unit. For example, the several trusts sponsored by Calvin Bullock are considered as having the weight of one manager. First York Corp. and Overseas Securities are included in addition to companies listed in the companion table.

S U M M A R Y

Balance Purchases and Sales Portfolio Securities				
63 Investment Companies				
Open-End Companies:	Bought	Sold	Matched	Total
Balanced Funds	16	1	3	20
Stock Funds	15	9	4	28
Closed-End Companies	3	7	5	15
All Companies	34	17	12	63

1 In part represents stock dividend of one share for each nine held.
2 1,693^{3/4} shares declared as 5% stock dividend.
3 Stock dividend from Mission Corp.—one share for each two held.
4 7,340 shares resulting from 10% stock dividend.
5 56,500 shares distributed as stock dividend by United Light & Railways at rate of one share for each five shares held.
6 Received in large part as dividend from American Gas and Electric.
7 2,613 shares represent stock dividend on Public Service of Indiana.
8 Liquidating dividend on Middle West Corp.—one share distributed per each two owned.
9 Includes stock purchased through rights.
10 Purchased through rights issued by General Public Utilities.

NOTE—This survey covers 63 trusts but purchases or sales of trusts sponsored by one management group are treated as a unit. For example, the several trusts sponsored by Calvin Bullock are considered as having the weight of one manager. First York Corp. and Overseas Securities are included in addition to companies listed in the companion table.

SUMMARY

Balance Purchases and Sales Portfolio Securities 63 Investment Companies				
Open-End Companies:	Bought	Sold	Matched	Total
Balanced Funds.....	16	1	3	20
Stock Funds.....	15	9	4	28
Closed-End Companies.....	3	7	5	15
	<hr/>	<hr/>	<hr/>	<hr/>
All Companies.....	34	17	12	63

Trusts Show Caution In First Quarter

(Continued from page 29)

America, which like Kennecott had also been top preference three months previously, now was sold by four managements. Hudson Bay and American Smelting were also disposed of. Buyers favored St. Joseph Lead, this issue being added to four portfolios. Three purchases were likewise made of International Nickel. Consolidated Mining and Smelting and Newmont Mining were each favored by two companies.

There was not much activity in the movie stocks. Four purchases of Paramount matched a like number of sales, although the number of shares bought was double that sold. Loew's found one lone purchaser of 300 shares. Twentieth Century-Fox enjoyed mild favor with two managements. There was a sale of a block of 5,000 Precision Equipment.

Reversal in the attitude on the steels was not unlike that experienced by the rails in the previous quarter. United States Steel was least popular among the former group, eight trusts disposing of 7,700 shares; three of these represented complete eliminations from portfolios. Republic also was lightened in three funds and completely disposed of by another. Three trusts sold a total of 1,800 shares of Armco while double that number of companies discarded Youngstown Sheet and Tube. Although four managements disliked Bethlehem, three others made purchases. Among sales of this latter issue were portions of commitments made during the previous quarter by some of the Seligman funds and Selected American Shares.

Reduced Rail Liquidation

The rails continued to be sold as in the previous period, but the volume of this liquidation was considerably reduced. Three funds sold 17,400 shares of Southern Pacific. Atlantic Coast Line, Chicago Rock Island and Pacific and Southern were each sold by two managements. Atchison was slightly favored by two other investment companies.

Industrial Machinery issues were fairly well divided, although sales slightly overbalanced purchases. 25,100 shares of Dresser were sold by five funds, three of which eliminated the issue from portfolios. Babcock and Wilcox also was disposed of by three managers. Purchasers favored Allis Chalmers, Bullard and Ingersoll Rand, all in light volume. Buyers of the chemical issues had a little edge on the sellers. Most popular issues were Monsanto and Mathieson. Five companies purchased 4,800 shares of the former and four made commitments in 24,900 shares of the latter. DuPont was purchased by six trusts and sold by four in about equal volume. Also favored were Cyanamid, Air Reduction and Allied Chemical. Dow and Hercules bore the brunt of the selling, four managements disposing of each. Opinion was split on Union Carbide, five purchasers offsetting a like number of sellers. Eastman Kodak was favored by six managements, four of which made new commitments; however, these were almost matched by five sales.

There was a split also in the total number of building and construction issues bought and sold. Lone Star and General Portland Cement, Masonite, Sherwin Williams, and United States Plywood were all purchased by three to four managements. Sales were concentrated in Johns-Manville, Flintkote, Glidden, Simmons Company and Otis Elevator.

Concluding Comments by Dealers On Effect of "5% Mark-Up" Philosophy on Small Business

(Continued from page 8)
GRAND RAPIDS, MICH.

Bad effect.

NEW YORK CITY

It has contributed to making it nearly impossible for smaller corporations to raise "venture capital" by equity stock. Has left small organizations with no secondary market and often no market.

NEW YORK CITY

Not much. Some restraint but not enough to prevent financing when conditions are favorable.*

SAN FRANCISCO, CALIF.

Slightly deterrent.*

SAVANNAH, GA.

Negligible.*

SMALL ILLINOIS TOWN

I think it is detrimental. Take the case of a corporation with 50 to 200 stockholders. It usually requires considerable effort to dig up a purchaser for this type of security, and 5% often is a very inadequate recompense for the efforts expended. Where you have a company with a good distribution and stock is in supply so it can be traded regularly, 5% is an adequate margin. As a small town dealer, it always seemed ludicrous to us that we are opportunely to offer our clients a new issue priced at the very top of the market so that we can make 10%, whereas we can find innumerable issues which would be far more attractive buys for clients, yet if we were to take 10% on these bargains we would be condemned as taking undue profits, yet our clients undoubtedly would benefit in the end. As a result of these regulations we have done practically nothing in the way of new underwritings, but have built a very substantial business and a large clientele on seasoned securities that could be purchased at large discounts from what new issues were selling at. The result is we have made no long profits for ourselves but we do feel we have done a very good job for clients and our records prove it.

CINCINNATI, OHIO

Limits the market and stifles dealer interest in these situations, thus making them even less active—thus causing price to sink even lower, since there isn't adequate margin to pay for effort in reselling such securities when someone wants to liquidate. Would eventually make it increasingly difficult to underwrite and distribute new issues in these classifications. So small corporations would be further denied financing needs in the future.

MILWAUKEE, WIS.

Detrimental.*

NEW YORK CITY

Prevents a proper market being maintained. Many brokers prefer to avoid such issues.

LOS ANGELES, CALIF.

None.

SAN FRANCISCO, CALIF.

It probably hampers it, but it is equally probable that it should be hampered.*

SAN FRANCISCO, CALIF.

It has prevented security houses dealing in small issues, which are the very ones needing such distribution.

NEWARK, N. J.

Unsatisfactory, as the margin of profit after distribution should not be reduced to 5%. If the NASD permits underwriters to charge up to 20-25% such as Kaiser-Fraser and Tucker, why should they be compelled to trade the same stocks after initial distribution at not more than a 5% gross. For a stock selling around \$10-15, the profit is —.

SMALL MAINE TOWN

Restricts.

SMALL MISSISSIPPI TOWN

None.

BUFFALO, N. Y.

It is the personal opinion of the writer that the distribution of the securities of the smaller companies is restricted by a limit of 5% profit.

SMALL UPSTATE NEW YORK TOWN

It does not do it any good.*

CLEVELAND, OHIO

None.*

SALT LAKE CITY, UTAH

Makes for a smaller market.

NORFOLK, VA.

Bad.*

SEATTLE, WASH.

None. My profits run as high as 10%.*

SAN DIEGO, CALIF.

Detrimental—Stifling.*

CHICAGO, ILL.

None.*

NEW YORK CITY

Limiting marketability and activity. Lowering prices, since cost of finding buyers makes it often unprofitable to peddle.*

NORTH CAROLINA TOWN

By discouraging dealer effort it limits the market for this type of securities.—(Signed) Sorry, I'm afraid of reprisal if ever the "powers" found a way to get to your files.*

CLEVELAND, O.

Practically none.

*Commented Anonymously.

PITTSBURGH, PA.

None as far as I can see.

SPOKANE, WASH.

Demoralization.*

MONTGOMERY, ALA.

Deadens activity.*

LITTLE ROCK, ARK.

Retards interest in this type of security. Makes it difficult for small corporations to obtain adequate financing.

LITTLE ROCK, ARK.

It is better for the securities managers and dealers to determine the best "mark-up" rule for their customers.

SAN FRANCISCO, CALIF.

Bad in principle. There are laws enough to take care of malefactors.

DARIEN, CONN.

N. G. P.U.*

SMALL ILLINOIS TOWN

Very little.

CHICAGO, ILL.

It would naturally tend to limit the marketability of the securities of smaller corporations as much more work would have to be done in order to distribute them and, as a rule, such securities are distributed in small lots. The dollar price of the stocks, being 10 or under, limits the gross profit to 1/2 point or less; consequently they are neglected even though they may have more intrinsic worth than similar securities of larger and better known companies.*

CHICAGO, ILL.

Will not work out—in the placing of securities for new companies. It is unprofitable to handle this type of financing on a 5% spread in the "smaller" issues and hard to sell issues, and experience shows that the "hard to sell" issues many times develop into some of the very soundest securities, especially in such fields as television, aviation, etc.*

CHICAGO, ILL.

Just gives the SEC another angle for loafing a few days longer in the office of the small dealer.

CHICAGO, ILL.

Depressing and discouraging.*

SOUTH BEND, IND.

The D—— NASD is slowly bringing about the ruin of the small independent dealer. The small dealer in more or less rural communities can't drive his car, and comply with all the regulations of the NASD on a 5% spread.

CEDAR RAPIDS, IOWA

It retards marketability.

TOPEKA, KANS.

Retards same.

OMAHA, NEB.

It can only be restrictive in its effects, and can be of little benefit, if any, to the public, as it tends to widen the spread between bid and asked price.

NEWARK, N. J.

Deterrent effect on a good distribution.*

NEWARK, N. J.

Killed market.

JERSEY CITY, N. J.

It naturally stagnates the market for this type of risk capital.*

SMALL NEW JERSEY TOWN

It tends to widen the spread between the bid and asked prices. It makes for more inactive markets.

SMALL UPSTATE NEW YORK TOWN

Deleterious.*

SMALL UPSTATE NEW YORK TOWN

Retards.

SMALL UPSTATE NEW YORK TOWN

Very bad.

ALBANY, N. Y.

It seriously militates against a good market. Worse yet, it makes it impossible for some companies to finance.

SMALL UPSTATE NEW YORK TOWN

Restricted.

BROOKLYN, N. Y.

A strangling effect.—(Signed) An American business.

BROOKLYN, N. Y.

It is dehydrating the business, the country, and all listed and unlisted dealers businesses.

SMALL UPSTATE NEW YORK TOWN

A very decided bad effect.

BUFFALO, N. Y.

Unfortunate if not bad.

BUFFALO, N. Y.

Forced small companies into limited commercial bank loans. Caused dealers to seek line of least resistance and to sell investment trust shares or seasoned stocks and bonds, thus eliminating the small and the new enterprise from dealer help in obtaining new funds.

SMALL UPSTATE NEW YORK TOWN

Has no effect.

CHARLOTTE, N. C.

Bad effect.*

CHARLOTTE, N. C.

It limits the market.

CLEVELAND, O.

Detrimental.*

CINCINNATI, O.

Limits markets considerably.*

TULSA, OKLA.

Makes it almost impossible to market them.*

OKLAHOMA CITY, OKLA.

Bad.*

PHILADELPHIA, PA.

Bad.

PHILADELPHIA, PA.

There is great variability in the extent of services required to buy and sell unlisted securities and it is obviously inimical to the smaller corporations, whose financing is made difficult or impossible by virtue of the restrictive "5% mark-up" in maintaining a market for issued securities of small corporations.*

PHILADELPHIA, PA.

I believe it has seriously impaired the marketability.

SMALL PENNSYLVANIA TOWN

Stifles both the small company, and the small securities dealer.

SMALL PENNSYLVANIA TOWN

Deterrent.

SPARTANBURG, S. C.

I think it makes it almost impossible to have a good market in securities of smaller companies.*

CHARLESTON, S. C.

It reduces the market.*

MEMPHIS, TENN.

Restricts distribution.

MEMPHIS, TENN.

Dries them up.

HOUSTON, TEX.

Restrictive—inhibitory—bureaucratic—destructive.

DALLAS, TEXAS

Will aid to put them out of business—I am against the principle and practice of the NASD.

DALLAS, TEXAS

It makes it difficult for all to secure fair financing, and impossible for some to secure any.*

AUSTIN, TEXAS

Rotten.

SMALL WASHINGTON TOWN

Detrimental.

SMALL WEST VIRGINIA TOWN

Reduces distribution by 50%.

SMALL IDAHO, TOWN

It is not enough on small issues.*

SMALL UPSTATE NEW YORK TOWN

Very bad effect.

SEATTLE, WASH.

Just one of the many New Deal brain-storms which has stultified development in the U. S. A.*

SPOKANE, WASH.

Does not help the market of these stocks.

LITTLE ROCK, ARK.

There is no doubt that this has been one of the factors which have prevented small concerns from raising funds. However, the other factors, which you know as well as I do, have undoubtedly played a much more important role. It strikes me that with profit possibilities as slim as they are, almost any man would be glad to get 5%. It is not that the profit is too small. It is the fact that the securities simply can not be sold.

DENVER, COLO.

The whole situation has had the effect of destroying "venture capital," particularly insofar as smaller corporations are concerned, resulting in increasingly narrower markets, lessened investor interest, etc. A concomitant result is the weakening of corporation borrowing power since inactive and narrow markets for corporation securities destroy borrowing leverage. "SEC" is the Spanish word for "dry," and conditions are drying indeed.*

NEW YORK CITY

Creates a no market situation.*

NEW YORK CITY

Bad (Signed) Afraid to sign.*

PHILADELPHIA, PA.

None.

LOS ANGELES, CALIF.

Bad.

OAKLAND, CALIF.

It would be a long story. But do think it has kept over 50% from being handled.*

OAKLAND, CALIF.

Injurious for out-of-town sales.

OAKLAND, CALIF.

Believe in most instances it is satisfactory except on venture deals, where salesmen are used, it is not sufficient.*

SAN FRANCISCO, CALIF.

Good.*

SAN FRANCISCO, CALIF.

None. And it prevents some 10% and 20% mark-ups which have been an abomination to our industry.

*Commented Anonymously.

SMALL ILLINOIS TOWN

No volume.*

CHICAGO, ILL.

Bad.*

SMALL NEVADA TOWN

Creates a narrow market and stops small industries from getting financed. I cannot cover Nevada on a 5% spread. Distances are great and customers few and far apart. Yet they need service.

SMALL UPSTATE NEW YORK TOWN

Virtually destroys the market for unlisted securities and small companies.*

NEW YORK CITY

Practically ruined such business.

SMALL OHIO TOWN

Limits their marketability to too great an extent. In fact it practically destroys it.*

NASHVILLE, TENN.

None.*

SEATTLE, WASH.

None. Don't think this applies to new issues of either large or small corporations. Small corporations can get funds if they are for a sound purpose and are willing to give the prospective buyer a reasonable shake for his money.

SEATTLE, WASH.

Unfavorable.*

SMALL WASHINGTON TOWN

Prohibits many small companies from doing desirable financing.

DALLAS, TEXAS

Makes them virtually impossible to sell through regular sales channels.

PORTLAND, ORE.

This is not a rule. It is a declared policy and a good one. It helps the market on worthy securities and discourages the promoting of worthless ones.

NEW YORK CITY

Broadens the market.*

NEW YORK CITY

Renders new financing impossible.*

NEW YORK CITY

Can't handle small issues for 5%.

NEW YORK CITY

Promotion and speculation made many of our industries. The 5% mark-up prohibits sound aggressive promotions. 5% may be sufficient for established company stocks with seasoned earnings and good yields. However, many issues with good future prospects require expensive advertising and much time by securities salesmen to put over. These companies "discovered" by brokers can eventually emerge seasoned in earnings and reward the stockholder with large dividends and subsequent higher market values. It is ridiculous to consider all stocks on a 5% spread.

NEW YORK CITY

It depends on conditions. In many cases even a 20% mark-up would not be excessive, in others 5% would be too much. There is no law preventing a retail merchant from a 100% mark-up on consumer goods and 60% is considered a more or less regular minimum. Why is it, and who is it that can have sufficient divinity as to say that a fixed 5% maximum, or even minimum of 5% is a fair rule for durable goods? Its ridiculous.*

NEW YORK CITY

Stagnation and loss of interest, since dealer has little incentive to bring the security to the attention of the investor.*

NEW YORK CITY

I couldn't operate my business on a 5% mark-up.*

NEW YORK CITY

Limits their marketability and liquidity, thereby making it more difficult to obtain equity capital.

NEW YORK CITY

Probably, in many instances, hurts the market for such securities as it requires research and effort to place them. The "laborer" is worthy of his hire.*

NEW YORK CITY

Very poor.*

NEW YORK CITY

Restricts market and activity as salesmen do not care to handle them.

NEW YORK CITY

Prevents expansion, denies them working capital.

NEW YORK CITY

Depressing.*

NEW YORK CITY

Aside from ruining the security business, it lets dealers resort to the distributing of issues of \$300,000 or under, knowing that these securities are of a questionable character, nevertheless he is compelled to sell same to keep himself together.*

NEW YORK CITY

Ruins the market.*

NEW YORK CITY

Prevents distribution.*

NEW YORK CITY

A ruinous effect as it prevents secondary distribution and hence the dealer resorts to selling crap that is filled with the SEC to make a living.*

NEW YORK CITY

Discourages.

NEW YORK CITY

None.*

NEW YORK CITY

Practically makes it impossible for smaller companies to do necessary new financing.*

(Continued on page 32)

Rich Heads Young Men's Board of Trade

James P. Rich, associated with the investment firm of Bradley, Gammons & Co., Inc., at 120 Broadway, was elected President of the New York City Young Men's Board of Trade yesterday.

In accepting the Presidency of the trade group, Rich said, "There can be no finer, no more representative group of so-called 'young' men in our country today than our group and the more than 2,000 Junior Chambers of Commerce like it throughout the United States. Ours is a militant organization of young business and professional men who are joined together to fight for the kind of community and the kind of country which we want. We want to preserve the freedom we have and to enrich this heritage as far as it may lie within the power of each of us to contribute." He pointed out that the membership of the Young Men's Board of Trade had increased considerably in the past year, constituting "a really excellent representative cross-section of young New York business and professional men." Rich complimented the outgoing administration of Edward A. Broderick, which he called "rich in achievement."

Indianapolis Power & Light Bonds Offered By Halsey, Stuart Group

Halsey, Stuart & Co. Inc. headed an underwriting group that offered publicly, May 11, \$8 million Indianapolis Power & Light Co. first mortgage bonds, 3% series due April 1, 1974 at 101.769% and accrued interest. Award of the bond was won at competitive sale on a bid of 101.219.

Net proceeds, together with proceeds from the sale of 107,226 shares of common stock, will be applied toward payment of part of the costs of completing certain construction projects.

General redemption prices for the bonds are scaled from 104½% to 100% while special redemption prices range from 101½% to 100%.

The company is engaged principally in the generation, distribution and sale of electric energy in and about the City of Indianapolis, Ind. It also is engaged in the production, distribution and sale of steam for heating and general industrial purposes. As of Dec. 31, 1948 the company and its utility subsidiary rendered electric service to 160,038 customers in Indianapolis and adjacent villages, towns and rural areas, all within Indiana.

Associated in the offering are Bear, Stearns & Co.; Otis & Co. (Inc.); R. W. Pressprich & Co.; Stroud & Co., Inc.; William Blair & Co.; Mullaney, Wells & Co.; Thomas & Co.; City Securities Corp.; and Harold E. Wood & Co.

With Security Assoc.

(Special to THE FINANCIAL CHRONICLE)

• WINTER PARK, FLA. — Oscar Bergstrom and George W. Lubke are now with Security Associates.

Leo M. Bernstein & Co.

WASHINGTON, D. C.—Leo M. Bernstein & Company, 1415 K Street, N. W. are engaging in a securities business. Partners are Leo M. Bernstein and Norman Bernstein.

Andrew T. Geyer to Form Own Investment Firm

Andrew T. Geyer, formerly manager of the stock department for James H. Acker & Co., will shortly form A. T. Geyer & Co. to engage in the securities business.

Concluding Comments by Dealers On Effect of "5% Mark-Up" Philosophy on Small Business

(Continued from page 31)

NEW YORK CITY

Indirectly has caused stocks and bonds to sell lower and lower. If there was money in the business for salesmen, many situations (issues) would be sold to the public (where the analysts considered the issue worthy) and would bring higher prices for all outstanding securities. New securities cannot be brought out as long as the old securities sell at such tremendous discounts. Salesmen are needed for that job, but it doesn't pay the salesman under the 5% mark-up to put his shoulder to the wheel. He can do better driving a truck.*

NEW YORK CITY

They will be excluded from trading.*

NEW YORK CITY

"Ruin."*

NEW YORK CITY

Protection for the public.*

NEW YORK CITY

Restrictive.*

NEW YORK CITY

Salesmen do not sell securities that do not properly compensate them. Too many sell new issues which do not compare in value with old ones because the commission on new issues is larger.

COLORADO SPRINGS, COLO.

It is ruining not only financing of small corporations, but small brokerage and investment firms if they have to adhere to it.

BOSTON, MASS.

Limited market.*

BUFFALO, N. Y.

Bad.*

*Commented Anonymously.

Building-Up Clientele and Meeting Special Situations

(Continued from page 4)

with your name written on the mailing piece. I would mail out about three such memos before I made my first call. You will find this will help to break the ice, make it easier for your cold-turkey call on the man or woman. Plan out on Saturday and Sunday all your calls for the ensuing week. You should endeavor to make 16 to 20 calls per day, and these should give you 10 real interviews, as a number of your prospects will not be home when you call.

A typical first call, and I have done this, men, many, many times: "Good morning, Mr. Jones. I am John Smith from Moors & Cabot. Through contacts of mine, I am glad to learn that you own 100 shares of XYZ stock. Are you still holding these shares?"

Given him a chance to answer. It helps break the tension of your cold-turkey call. He may say to you, "Yes, I own them, but what about it?"

"Fine. I will come right in and give you an up-to-date Standard & Poor's report on your stock."

And men, knowing that stock and corporation well, talk with knowledge, conviction and sincerity about it. Always have the name of your firm and yourself written on the stock report card which you finally are going to leave with him on the first call. Check-mark a few good high points on the card which you can point out to him. Selling a man through his eyes is much easier and effective than through his ears; you can send the facts home better and it holds his attention.

"Be Sincere and Positive"

A few side thoughts here of advice which I have gained through this exact type of work. Always have a friendly approach, but be sincere and positive. Always have convictions about the possible war with Russia and other events. The last two years and a half I have taken the premise that there would be no shooting war with Russia for

many years to come. I could only be 50% wrong. There hasn't been a war yet. But you have got to have a conviction and a premise to work on in this business about business conditions for the year, the possibility of a new Federal corporation tax bill, the trend of the stock market, and so forth.

Have a definite opinion on things. Don't be a wishy-washy salesman. A prospect or client hates to hear a salesman say, "I don't know; it may go up or it may go down." So have an opinion on things, and men, I say again, you can only be 50% wrong.

A prospect expects you to leave with him some definite ideas and information. When stocks are down, and the stock market as it is now and has been since Labor Day of 1946, men and women you will be calling on are stunned and worried about their stocks.

Don't try to know too much about too many stocks and bonds, but always have a few situations in your mind that you know a lot about, for each phase of the business, two or three bonds and high-grade stocks for older people, with fair income and not much chance of appreciation and not much risk of capital. Then have some stocks in the middle class, about 10% yield, in which there is a chance for appreciation. Then have some speculative stocks where they wish no income of any kind, but desire a chance for capital growth.

Don't be afraid to carry your brief case and carry plenty of papers and memos. My bag is always with me; I would feel lost without it. Look on yourself as a financial doctor, capable of prescribing for a man's financial health, just like an M.D. looks after his physical health. In that brief case of yours are your answers to his financial aims and troubles.

Now, getting back to your first interview with a stockholder of XYZ stock, you should talk along these lines:

"Mr. Jones, I am certainly pleased you hold this stock. It is giving you a good income from its present dividend rate. Its outlook for 1949, contrary to many other stocks that are not doing so well this year, is excellent. It looks now as if it will earn a little more per share this year than last and if this increase holds up the dividend might be increased, which will help the market value."

Ask him, "How long have you held this stock?" He may tell you the year he bought it. On your card, you can easily get from the table on the back the high and low for that year. You say, "Did you pay 40 for it?" and he probably will correct you—naming the price he did pay—it gives him a chance to talk again—which is constructive.

A Typical Case

Now, let us take a typical case, a real procedure. Supposing you find he paid \$40 a share. I will assume here that the stock is paying \$2 per share dividend and it is selling that day at \$20 with a yield of 10%. Suggest then:

"Mr. Jones, it would be worth your while to buy 100 shares more at 20 to bring down your average cost of 200 shares to 30, with an average yield of 7½% on the 200 shares. Mr. Jones, it is fortunate on account of this attractive market level, you can invest today, say, \$2,000 and receive on the new purchase 10% on your money instead of no income if your cash is in your checking account, or about 2% if it is in your savings bank account."

"How does this appeal to you, Mr. Jones?" This is where I ask him for his first order. "How does this appeal to you, Mr. Jones? Do you wish to place an order with me today to buy 100 shares at 20?"

Wait for his answer. You are right, men. The answer will be "No"; no question about that.

He may say—"I would like to think it over and study further your Standard report card"—which you are leaving with him.

Then get on to a more friendly plane with him. I most always see or find something to talk about. You may see in his home or in his office a stuffed pheasant, or a beautiful trout or salmon mounted on the wall, or something else in that office, perhaps a picture of his son—on his desk, which you know means something to him. So with some clue of this kind, inquire into those fields. "Are you fond of fishing?"—if you see a fish, which I very often have. "Did you catch that salmon you have mounted on your wall up in a New Hampshire lake?" and so forth. You will now get on a very relaxed friendly plane, because he will talk about things he is interested in.

Analysis of Prospect's Holdings

Now bring him back to your domain again by saying: "Are you holding some stocks that have gone down market-wise, reduced or omitted their dividends, that you are worried about?" Let him talk. Most prospects will tell you about such stocks. Then you state that your firm, one of the best in Boston, has an excellent investment research department, and that with no obligation it would be a pleasure for your firm to analyze his holdings and check up his situation for him.

It is not uncommon for you to secure the names of several stocks on the first interview that he is worried about, and you then have the entree for further friendly return calls on Mr. Jones, and you are on the way to building your clientele.

It is indeed possible and you should aim to carry out this clientele building campaign. With hard work and ability, you can in one year, 200 working days, no Saturdays and Sundays, and with holidays out, secure, if you are exceptionally good, an average of

one client in 10 real interviews, which would give you a large business with 200 customers in one year. It is not hard at all to secure at least one client in 20 interviews, which would bring you a very nice 100-customer clientele in a little over one year.

Men, every factor I have outlined to you tonight has been accomplished by myself, and other men I have trained when I was doing sales managership work. You have to have intelligence, imagination, be willing to work hard, and within a year you should be successful in this wonderful business, making from \$100 a week to \$200 a week, plus.

Special Situations

Now that we all have a substantial clientele, let's look over a few typical examples of special situations to sell your clients, in addition to the routine line of investments.

Most of my clients, and yours, will hold the old-line, well established stocks, like American Telephone, General Motors, U. S. Steel, Du Pont, Eastman Kodak, etc. I always have two or three good investment trust stocks in my portfolio; those are worth holding. I have many thousands of shares of some of the Keystone series, such as K-1, the preferred series, scattered through my accounts. And I expect to sell many more of those shares. This, of course, I know is gratifying to my good friend Bill Cusack, Vice-President of Keystone Funds, who is here tonight and will talk to you in a few moments when I am through. He is a great fellow, an outstanding success in his field and a firm believer—I know him well—in the future outlook for our investment business.

Along with the general market, I always have special situations, which over the long run should make my clients by far the most money. Such bond and stock situations I go into are placed through most of my accounts. I get to know these corporations from end to end. In some cases I serve on the boards of directors, or else I have direct contact right into management, and keep my clients posted monthly on their important operations, earnings, and other factors of management. Don't forget, men, most money is made through knowledge in this business, and not through trying to guess which way Steel or General Motors is going to go.

I will now give you a few examples of special situations I have been in during the past two or three years. I have had them every year right on back, but two years is near enough for this talk tonight. I live with these stocks and stay with them until the results I aimed at are attained, if possible.

The Boston Elevated Stock

My first example is Boston Elevated stock. About a year and a half ago, when my clients, like yours, were so discouraged and dazed that they could not see any daylight and had a very low feeling towards stocks and Wall Street in general, I couldn't sell them hardly anything. They didn't want to do anything.

After making a complete study of the Boston Elevated Company, I saw that \$20-odd million had been paid in cash by the Massachusetts Transit Authority and had been deposited in the Merchants National Bank of Boston in cash. And I saw it was now only a liquidation matter, a stock not dependent upon earnings, outlook or anything.

So after a payment to the Elevated stockholders of \$40 per share, the stamped stock traded on the Boston Stock Exchange and over the counter was then selling around 18½ to 19½ per share. The Federal capital gains tax was estimated at around \$6,200,000 or a little under. I made it my point to get to know the President of the company, Mr. O'Connell, the

President of Slattery's Department Store, a wonderful man to know and talk to and a grand fellow, and the attorneys for the Boston Elevated.

I clearly saw that if the State Supreme Court ruled in time that the MTA of the Commonwealth of Massachusetts had to pay the Federal capital gains tax, living up to their contract to give the El stockholder his full \$35 per share, the stamped stock bought at around 19 would then more, than double the man's invested capital. And I didn't know of anything else at that time that I could even dream would go up even one point.

I also was shown by Mr. O'Connell that we had all the grounds required to get a reduction in the Federal tax bill of perhaps up to \$1,000,000, and if received, stockholders would then be paid—if we lost our tax case—perhaps as high as \$23 per share. I saw we should be paid back approximately 19½ if we lost our tax case and got no tax reduction. I could buy the stock for around 18½ or 19.

So I went to work on my clients and interested them in purchasing this El stock in a down-to-earth, homely way. I often sell this homely way; it pays off. I said: "Mr. Jones, would you like to go down to Suffolk Downs and bet on a horse someone had given you a good tip on, go to the windows and buy your ticket—your horse then on the board was a 2-to-1 shot, you would then go back to your clubhouse seat and see the race, but in the home stretch your horse tires and drops back to 2nd, 3rd, and then 5th, and you lost your money? Now, how would you like this to happen today? Suffolk Downs has a new rule just for today, when I am talking to you here. If you play a horse called 'Elevated,' a 2-to-1 shot, and gamble your money, if 'Elevated' comes in first, he will give you double your investment. But if he falls down and breaks a leg on the track and never comes in, the track feels so sorry in your case that it will give you back your money you had bet, and maybe a little more. Of course, you would like that, wouldn't you? How could you lose?"

"Well, Mr. Jones, that is just what you can do today in Boston Elevated stock."

It was the first time in years that I could offer a stock to my customers which was not dependent upon earnings and dividends. You were buying American dollars in the bank, and you just had to wait for the pay-off, a good change to win our case in the Supreme Court whereby we would have doubled our invested capital, and if we lost our case you would get back \$19.00 a share and possibly \$23.

Well, men, it went over big, and my clients bought several thousands of shares. Our Supreme Court has rendered a verdict against us. I kept my clients posted as usual. Some sold out right away, that afternoon when I got the news from the State House, at around 19 to break even. Some are waiting for Uncle Sam to adjust our tax claim, and we may get back around \$23 or so in cash.

Today the stock sells at 16½, a discount on the American dollars deposited in the banks in Boston. In talking a few days ago with President O'Connell, he feels this year it will all be settled up, he believes we will get a satisfactory reduction in our Federal tax bill, and perhaps somewhere near \$23 per share in cash will be paid. Men, that was an easy way to sell a stock in that type of gloomy stock market.

R. Hoe & Co.

Number Two, another special situation, R. Hoe & Co. About three years ago, after a lot of study, our Chicago friends, whom we have been in some very fine deals with over a period of years, showed us a situation which appeared to have unusual charge-offs

and uncapitalized assets, whereby with some constructive changes in management, a really attractive situation existed. And it was one we could live with for some years to come and help develop.

R. Hoe & Co. is one of our oldest enterprises; it started over 140 years ago. It is the leader and dominating factor in the United States in the newspaper and magazine printing-press field; and the heavy timber-saw industry, which it has served for over 125 years. I asked some of the officials in the lumber industry at one time, when I made an inspection of a lumber company in Washington on the West Coast, "What kind of saws do you use?" Well, they said, "we only think we can use one kind."

"Who are they made by?"

"R. Hoe & Co." Because cutting through these great, heavy Douglas fir logs 24 hours a day, it seems to be, in their opinion, the best saw.

Well, our Chicago friend and I were elected to the board of directors, and about that time Mr. Joseph Auer became our new President, and the whole operating and sales organization have functioned well under him; he is doing a swell job.

In that company the senior stock is the 96,000 shares of class A preference, \$4 dividend stock. They had about \$84 of accumulated dividends per share. After considerable effort—it wasn't easy—finally a plan was effected to eliminate the \$84 in arrears. Each stockholder received \$4 in cash and four shares for each class A share, of a new class B, with a liquidating value of \$20 per share—four times \$20 is \$80, plus \$4 is \$84. Then the class A stock became current, up to date, and has paid a dividend ever since. In a little over two years the B has been purchased in the market for cancellation, and from nearly 400,000 shares outstanding more than two years ago, there are now out only 255,769 shares. For 1949 fiscal year which started Oct. 1, 1948, approximately \$50,000 per month has accrued in this B stock redemption fund.

So in a little over two years approximately \$8 per share has been added to the common by the cash purchase of B shares for cancellation—as the B shares come ahead of the common. And the common today sells around 6 or 6½, with earnings of over \$5 a share after all charges and taxes.

You men here tonight know, and I know myself from other companies I am interested in, that we are not getting an awful lot of new business on the books in a great money corporations. Many companies have used up their backlogs. Textiles, especially, have gone down to two, three, or four days a week, and new business coming in is very, very hard to get. Hoe Company in the first six months of this fiscal year has placed new orders on its books of \$8,200,000 against \$7,400,000 for the exact same days of last year, which was a good industrial year for business.

Hoe has shipped and billed out in the first six months this year \$8,100,000, against \$7,800,000 a year ago, and the net profit after taxes for the six months was approximately \$935,000 against \$827,000 the year before. Its sales department is excellent, and with a backlog of over \$25,000,000 the corporation has day and night capacity operation in all our plants for at least two years ahead. The company earned its entire \$4 class A preference dividend in the first two months and two weeks of the fiscal year.

So my clients hold class A stock for investment, to yield at the price today 45, callable at 65, approximately 9%, and there is plenty of possible capital appreciation from 45 to 65.

It is hoped by many class A stockholders that in the not too distant future, when there are

only about 200,000 shares of B left, that a plan of recapitalization could become effective that would replace the class A stock callable at 65 with 4% income debentures, which would be offered to the class A stockholders first, on an exchange basis, whereby a class A holder would receive in debentures at least \$4 per share income or more.

There appears to be an active buying interest by several institutions, who desire to take up all these debentures, or whatever would not be subscribed to by present class A stockholders. By replacing class A stock—with income debentures a substantial Federal tax saving would be effected—as the class A dividend payments are paid from net profit after Federal taxes are deducted. The same sum paid out as debenture is an expense item before Federal tax.

R. Hoe & Co. would save around \$150,000 a year in tax saving, a million and a half in 10 years. Perhaps such a plan could combine an attractive deal to eliminate the then remaining B shares. Then the common, which is now earning approximately \$5 a share, could be placed on a dividend basis. Then this fine old 140-year concern could further its expansion after the common being placed placed on at least a \$2 dividend basis, absorb and buy out, with the exchange of R. Hoe & Co. common stock, when it was selling on a much higher level, for the control of one or two other corporations that would fit well into the Hoe picture and round out its products.

There is one concern now, family-owned, that might be absorbed in this way. The merger could be effected and it can be done when the time comes and show Hoe company a net profit after taxes from this new subsidiary of over a million dollars per year where the Hoe total net now is approximately one million seven. And that company can be bought, when the time comes, with such an exchange of stock.

So this is another type of situation I have enjoyed a continuing interest in, and I personally believe you men could enjoy making money for your clients in both the class A stock and the common.

Central Railroad of New Jersey Bonds

Special Situation No. 3, Central Railroad of New Jersey bonds, 5% of 1987—I will cut through this pretty quick. It came to us through my rail analysts' friends in New York City. It was a bond then selling around 65 when I put it away. You could see the plan coming through the ICC and Federal Court and whether or not the plan is effected my clients should make money, plenty of money; we will make more if there is no reorganization. And since my clients bought these bonds—it was an easy job to sell at 65—my clients have had 25 points off of 65, which is 40, interest over the last six months. It marked their cost price down to 40 from 65. There are still 20 more points of interest to be paid if the bonds are to become current; that would bring the price down to 20 and then my clients would be holding a current 5% first mortgage bond of the Central RR. of New Jersey at a cost of 20, which I think would sell in the market above 75.

It didn't take any selling ability to put away in my case several hundred of those bonds. And those bonds are one of the few things that have done well for our clients over the last six months because they are higher today in relation of their cost price, giving due consideration to their interest paid.

Ultrasonic Corporation

My last example, No. 4, is of a special situation of a new, young, growing company, Ultrasonic Cor-

poration, located in Cambridge, Mass. This, I believe, is an unusual opportunity for growth. You have received tonight the "Wall Street Journal" reprint and also the brochure. This is the only time I have ever had the opportunity of going into a brand new field wherein we have the basic patent control. It is all ours; we are the first ones in it.

We are making artificial, terrifically powerful sound waves that have a wide use in industry. It will do wonderful things. It is unknown yet—the scope and area of its future field of endeavor. We simply take compressed air in a straight line and through our patented generator turbine, break it up, chop it up, cut it up, so that at the end it comes out as artificially made sound waves. What does sound do? All that sound does is to vibrate something to death or pieces.

The familiar, work-a-day sound wave that brings you anything from a whisper to a whistle is being intensified and blasted forth to help manufacture carbon black, recover lost chemicals, purify "sour" gas, banish dangerous flue dust and hurry the drying of drugs and soap. Powerful sound waves are expected to speed paper-making by 20%. The work is done by sound-making machines—new strong-lunged generators that chop compressed air into powerful sound waves. These husky gadgets have moved the science of high-power sound out of the test tube and put it to work in the factory.

Take the new sound machine which Ultrasonic Corp. is installing in the plant of a big soap maker to help spray-dry soap. Powerful high-pitched sound waves will be aimed at the soap as it's sprayed out to dry. The sound vibrations will jiggle the droplets of soap so vigorously they'll zig-zag as they fall, covering 200 times the normal distance in the same amount of time. This violent motion means faster drying. It is claimed the same sound-bouncing process can be used to spray-dry drugs, detergents, powdered milk or coffee.

Sound waves are going into paper making, too. In a plant of Southern Advance Bag & Paper Co. at Hodge, La., Ultrasonic is testing a sound-wave dryer. When paper starts its long passage through the drying machines, it is more than 99% water. The new sonic machinery will bombard this soaking sheet with sound waves, give it the "shakes" and literally knock off the water. Company officials believe they can speed up the process enough to boost the capacity of each paper machine sharply. They expect to perfect the sonic dryer in about a year.

Armed with its powerful new generators, Ultrasonic Corp. is selling the use of sound waves to industry. So far their main job has been in chemical processes where the waves help recover some valuable products and purify others. One Ultrasonic sound-maker is in operation, contracts have been signed for seven others and the firm is negotiating for the sale of 25 or so more.

First job of the powerful new waves—in this case the audible variety—has been to work on the tiny particles of solids or liquids which are suspended in gases and come rolling out of chemical vats and factory chimneys as fumes, mists or smoke. Sometimes the sound waves dispel bothersome smoke; sometimes they recover valuable chemicals in the fumes.

At present such particles—so small it would take 2,500 to 20,000 or more to stretch an inch—are usually collected electrostatically. The solids are given a positive or negative electric charge and then are attracted to wires or plates having the opposite charge. Cost of installing the simpler, more compact sound-wave collector is estimated by Ultrasonic officials

to be about half that of the electrostatic type.

A good example in the collector Ultrasonic installed in the new carbon black plant of Cabot Carbon Co. in Pampa, Texas. This manufacturing process, if you reduce it to simple terms, involves burning natural gas with so little oxygen that it forms a sooty smoke from which carbon black is separated. That's where sound waves come in handy.

A high-powered generator throws sound waves into a 20-foot-tall cylindrical drum containing the smoke. As the waves jiggle the tiny carbon particles thousands of times per second, the smaller, faster moving bits adhere to the larger, slower ones. These black particles "snowball" until they're large enough to fall to the bottom into a metal trap where they're drawn off. The gas that's left is blown out into the air.

Ultrasonic Corp. has a contract to put sound waves to work, similarly, collecting sulphuric acid fumes generated in a new sulphuric acid plant which has been built in New Jersey by Chemical Construction Corp., a subsidiary of American Cyanamid Co.

Company officials claim their sonic apparatus will also recover fine dusts of lead, zinc, molybdenum and other metals which go up the stack in smelting processes; iron oxide and its fellow metals which end up in blast furnace fumes and fine dusts of chemicals, some worth \$100 a ton, used in processing petroleum.

One big oil company has ordered a sound-making machine to remove the sulphur in "sour" natural gas. Two paper mills have contracted for sound choppers which will recover valuable chemicals that go up the chimney in paper production, and the Combustion Engineering Corp. has signed up for a sonic machine to remove harmful flue dust in a new England plant.

The Army has its finger in the game of sound waves, too. At the Aero Medical Laboratory at Wright Field, Ultrasonic apparatus is being used to study the effect of high-pitched sound waves on human beings. Engineers fear that as planes break into the faster-than-sound zone, they may set up an ultrasonic vibration harmful to pilots.

Advantages of sonic collectors are . . .

Fines of any chemical, physical or electrical nature may be recovered.

Temperature of the gas being treated may vary widely from below 0° F. to over 900° F.

Inflammable gases and fines may safely be treated by operating generator on inert or cleaned process gas.

Minimum of operating expense and maintenance time is required.

High collection efficiencies are obtained, resulting in rapid return of installation cost.

Installed cost is inherently low . . . often much less than for other fine particle collectors.

Operating expense, too, is inherently low.

Valuable fine particles now lost may be readily recovered, and air pollution problems eliminated.

The Ultrasonic Corp. would have outstanding, if all the present options were paid for and exercised, a little under 70,000 shares. There are no bank loans mortgage debt or preferred stock outstanding. The balance sheet as of Dec. 31, 1948, showed current assets of \$217,238, against current liabilities of \$8,227—a ratio of 26-to-1.

From a trade survey and analysis of its sales field, it is estimated that after its research work in the field on a large gas flow in an industrial plant is completed, sub-

stantial sales and profits can be shown as outlined below:

The first year after completion of this field research work—which could be July 1, 1949—it is estimated sales for that first-year period—\$1,330,000—which should show a net profit after Federal taxes on 70,000 common shares—approximately \$4.50 per share.

The second year—sales of \$4,910,000—net profit after charges and Federal taxes of—\$915,000—approximately \$13 per share.

And the third year—sales of \$12,875,000—net profit of \$2,400,000—which would be approximately \$34 per share.

The last sales of stock in the market were approximately \$20 per share. So, around this level, the stock would appear to be an attractive growth—speculation; with earnings as outlined above, this stock could sell at substantially higher values.

These are the kind of special situations I have been interested in—they give a wide area for your work.

In closing, I wish to say to you men—my fellow Investment Club Members—that my door at Moors & Cabot is always open to you. I am interested in young men—have two sons of my own, one 29 and one 34 years of age—who are successful in business. So, let me hear some of your sales problems and I will advise you on them. It will be a pleasure to serve and work with you.

Halsey, Stuart Offers Potomac Electric Bonds

Halsey, Stuart & Co. Inc. and associates offered to the public, May 11, \$10 million Potomac Electric Power Co. first mortgage bonds, 2½% series due 1984 at 101½% and accrued interest. The group was awarded the bonds at competitive sale on its bid of 101.01991.

Net proceeds from the sale of bonds, together with funds from the sale of additional common stock, will be used in connection with the construction programs of the company and its subsidiary, Braddock Light & Power Co., Inc.

The new bonds will be redeemable at prices ranging from 104½% to 100% and at special prices scaled from 101.67% to 100%.

The company serves with electricity an area consisting of approximately 633 square miles, comprising the entire District of Columbia and approximately 51% and 63%, respectively, of Prince George's and Montgomery Counties in Maryland.

Associated in the offering are Otis & Co. (Inc.); Shields & Co.; the Robinson - Humphrey Co.; Byrd Brothers; Gregory & Son, Inc.; Stein Bros. & Boyce; Thomas & Co.; Mullaney, Wells & Co.; Wm. E. Pollock & Co., Inc.; Courts & Co.; Thomas L. Hume Sons, Inc.; and Roger S. Palmer Co.



As We See It

(Continued from first page)

can expect an effective farm-production and price-stabilization program to serve the interests of all the people," the Secretary told the Committee at one point. And here in very brief is the list:

(1) It can help prevent depression: Most depressions have been farm-led and farm-fed. Farm prices traditionally go down before, faster, and farther than other prices. On the downswing of the business cycle, farm people are the major early victims of the squeeze. As their income and, therefore, purchasing power is cut by low prices or production failure, industrial producers find a contracting market for their production. This throws workers out of jobs. They in turn spend less for farm products, which in turn further forces down farm prices, and farm purchasing power is further cut. . . .

(2) A farm-production and price-adjustment program can help build markets for industrial goods and help maintain employment for labor: Industry today is dependent on the farm market to a far greater degree that it has ever been. . . .

(3) Stable farm prices and incomes encourage high-level production with the greatest assurance of reasonable prices to consumers. This is one of the most significant lessons from our wartime experience. Without the cost-plus contracts and guaranties enjoyed by many industries, and with only reasonable price protection, farmers quickly made great shifts in the use of their productive resources to meet war needs. . . .

(4) A program that helps maintain farm incomes helps to maintain agricultural resources: City people, just as much as farm people, are concerned with the problem of conservation. Our soil, water, and forest resources must support a population that is still growing, and our objective is a higher standard of living for the people as a whole. Yet we are still losing productivity on hundreds of thousands of acres every year. Half of all our cropland is still subject to erosion. . . . Resources can be conserved and improved only if they are used profitably. . . .

(5) An effective farm program is essential to our national security, will provide a reservoir of goods which protects the nation against crop failure, and will assure supplies for an even flow of world trade: Reserve supplies above ground and their counterpart—reserve strength in the soil—are essentials of national defense. . . .

(6) A price-support program which safeguards our rural economic strength can help stabilize the rural community and help maintain individual opportunity in our free-enterprise system: One bulwark of democracy may be found in the prosperous rural community mainly composed of economically strong families farming in the traditional American pattern. It is an ever-present answer to communism.

The naive soul reading this type of oratory might almost come to the conclusion that all that Congress really needs to do is to pass a good farm subsidy program, and go home and watch the nation's welfare bloom and mature in all the fields and in all the factories of the land. In such an event the harassed business man could relax and all the rest of us enjoy surcease from sorrow. True it is, of course, that the Secretary at intervals explains that this farm program of his is not the only thing that is needed to usher in a millenium—there are some others who need to be helped in order to have everything just as it ought to be—but there would be much less to worry about and life would be so much simpler and easier for us all if only we had such a farm program as the Secretary now suggests! A school child who could not be expected to recognize economic fallacy would naturally and normally come to just some such conclusions.

What Nonsense!

But what nonsense this is! The farmer leads and feeds depressions by losing his own prosperity. Accordingly, the remedy is to take from other people a part of their purchasing power and turn it over to the farmer in order that he (the farmer) may buy their products! But who now will supply these other people with purchasing power so that they can buy farm products? How much simpler it would be to have the manufacturer, the store-keeper, the non-farm consumer, and the rest organize a movement modeled upon the "CARE" pattern to provide the farmer with what he wants!

And industry would then not need the farm market particularly, since it would be supplying that market gratis—that is, except for the prosperity it indirectly (or however it is) draws from its charity. The farmer, in his turn, being supplied without charge with a sub-

stantial part of his needs, both personal and business, would not need to charge so much for his goods—and could not get very much for his goods since his customers meanwhile had been impoverished by their generosity to him. But so long as prices remained above these reduced costs, his income would vary with his production (apart from the vagaries of weather), and thus large scale production would be encouraged, and ample supplies assured! And so we might proceed through to the end of the list of advantages the Secretary claims for an effective farm program.

Silly? Of Course!

Is all this silly? Of course. Precisely as silly as the arguments of Secretary Brannan in behalf of his farm program. And, incidentally, precisely as silly as all those arguments employed by so many to defend so many and so varied a list of subsidies and largesse. High wages, shorter hours, unemployment insurance, free spending on the part of government, and a dozen other of the "modern" anti-septics or depression specifics so constantly prescribed in this day and time by so many amateur physicians are, of course, in precisely the same category. Defense of these measures has not always—or even usually—been so elaborated.

Perhaps those who do not qualify as farmers should feel a certain debt of gratitude to the Secretary for the suggestions he has afforded as to how to make their claim for charity sound, reasonable and respectable. They are hardly indebted to the Secretary on any other account.

Severe Slump or a Depression?

(Continued from first page)

declines have always involved one or more sharp and substantial downswings and a long period of sagging prices bringing them eventually back to their prewar levels.

Many of the illusions commonly held at the crests of past booms are popular today. For example, almost everyone expects a readjustment but considers a major depression to be out of the question; prices are considered to be on a new and permanent plateau; there is much reliance on the government's determination to use its new powers to prevent a depression; many individuals in government assume that it will be possible to perpetuate the boom by the use of various and sundry supports and pegs, and finally the estimates of future growth in our markets are characteristically liberal as compared to what they were just a few years ago. A sharp downswing in production, incomes and prices could have about the same elements of surprise that they have had in the past.

Many of the demands which were responsible for the postwar boom were or are temporary and optional. Acute shortages were natural when business was called upon to reconvert to peacetime production to make up the vast deficiencies accumulated during the long period of wartime restrictions; to meet the urgent needs for housing and durable goods of the new families created during the war period; to provide material aid for restoring the war torn areas; to make substantial investments abroad so as to enable some of the less well developed areas of the world to catch up with the industrial revolution, and to expand and rebuild our own productive facilities in response to the rapid strides made in the past 15 years in industrial technology. These demands are all temporary and the time will come inevitably, and perhaps sooner than we expect, when industrial production will have to be geared to more nearly normal markets. For a time capacity may be in excess of demand in important areas of our economy.

The nation may well face a protracted rather than a brief period of readjustment as foreign nations realign their currencies and one after another reenters into competition with us, as the backlogs are eliminated in first one and then in another business, as plant

expansion programs are completed in some and finally in all major industries and as farm prices and production are slowly adjusted to the new demand situations they will have to face.

While the credit resources of private loaning institutions have not been and are not likely to be a limiting factor, the inability of business in general to obtain in the financial markets the equity funds essential to a long period of expansion has restrained many concerns from proceeding with the second segments of their long-range plant and equipment expansion programs.

The government is full of confidence that it can prevent a slump by spending freely, financing its deficits in an inflationary way, engaging in large scale relief operations for individuals and businesses, making money easy and cheap and stepping up its expenditures for public works. And it is firmly believed by a number of government economists that even if a decline in business starts, measures of this kind can prevent it from developing into a serious depression. Such confidence in the government's power to spend vigorously enough so as to offset any decline in private outlays exists despite the failure of pump priming in the 30s despite the possibility that big deficits might be so threatening that for every dollar the government paid out several dollars in private funds would go into hiding.

The postwar boom is unique in that there has been little evidence of speculation for the rise or of intemperate credit expansion in either our security or commodity markets. Those developments which frequently in the past have touched off the big slides in business, or have caused a decline, once started, to spiral into a vicious credit deflation are not present today. The stage does not appear to be set for either a financial panic or a great deflation.

Depressions have always been troublesome and sometimes they have been painful but most of them have been short and all of them have been followed by periods of growth and progress and prosperity. In the history of this nation depressions have been only brief interruptions in the economic growth which has carried our standard of living to fantastically high levels and there is no reason to doubt that the basis

exists for a vast expansion in the decade ahead—if we get the necessary readjustments out of our system and remove the roadblocks to growth.

Conclusions

We are in a readjustment which, unless the cold war gets hotter, may well be fairly serious before it is completed. The risk that before the readjustment is completed we shall experience either a severe recession or a moderate depression is very great.

There is no need for anything more severe than that, for vistas of great development can be realized if the economic policies of the nation are kept in sound balance. We need hospitals, schools, roads, housing and all that goes with them to accommodate the accelerated growth that has been taking place in our population. We are in the pilot plant stage of a revolution in industrial and agricultural technology which is capable of lowering costs and improving the quality of products, widening markets and providing the basis for continued heavy investment in plant and equipment.

We shall have a severe or prolonged depression only if the government relies solely on its spending power to turn the tide and refuses to take those actions which will reactivate and reinvigorate the factors making for expansion in the private sector of the economy. Of our gross national product of about \$250 billion approximately \$200 billion originates in private enterprise. The government hasn't got what it takes to offset even a 20% decline in private income by an increase in its own expenditures and the great risk is that any threat that the government contemplated any such course of action—with the inevitable deficit—might undermine the whole structure of confidence on which enterprise rests. The economic risks are obviously great—so great, in fact, that our Number One task today is to mobilize the full resources of the nation in the preparation of an alternative program to that which relies almost wholly on government outlays, i. e., one which will set the stage for a great revival in private investment by business and by individuals. That calls for the best and most sincere thought of our leaders in government, business, banking, agriculture and labor. It is imperative that such a program be prepared immediately for the time of need may well be sooner than we think.

The sequel to the postwar boom will be a moderate readjustment followed by a great period of prosperity or a long debilitating period of depression, depending upon how realistically we approach the problem of restoring the drive in the private enterprise system. If I may be permitted the luxury of one prediction it is that the statesmen of American Government, business, banking, agriculture and labor can be counted on to do just that—although it may take a real jolt before we will be brought to the point where we can set a more realistic course.

Hirsch Co. to Show Movie

Hirsch & Co., Members of New York Stock Exchange, announce that the motion picture "Money at Work" will be shown at the firm's office at 2291 Broadway on Thursday, May 12 at 8 p.m. The picture describes the operation of the New York Stock Exchange and the part it plays in a democratic economy.

The firm also announces that this office will be open every Thursday evening from 7:30 p.m., after May 12.

John R. Jones Opens

(Special to THE FINANCIAL CHRONICLE)

ST. JOSEPH, MO. — John R. Jones is engaging in a securities business from offices at 136 Park Lane. In the past he was on officer of Atlas Investment Co.

Prospects of Business Financing —The Long Range View

(Continued from page 8)

economy, resources may be allocated in a manner not consistent with society's aims as reflected by the relative profitability of other firms and industries. The use of retained earnings enables a corporation to avoid going into the market for funds and competing with other firms for the available money. In this manner one of the important merits of a system of free enterprise is broken down.

One group of people argues that there is no equity capital problem and points to:

(a) the large proportion of corporate uses of funds supplied by gross corporate savings in the postwar years; and

(b) the large volume of new capital security issues as evidence of a strong and vital capital market.

Amount of New Capital Over-rated

Point (a) has already been discussed so attention will be devoted only to point (b). Reference is frequently made to the fact that \$6,000,000,000 of new capital security issues were floated in 1948, an amount exceeded only by the 1929 figure of \$6,400,000,000. While the absolute figure appears large an entirely different impression results from comparing these amounts to the uses of corporate funds in the respective years.

(1) In the period 1926-1929 new capital security issues comprised about 60% of corporate uses of funds. In view of the substantially larger uses of funds in the postwar period, the 1948 new capital

security issues figure becomes far less impressive. If the 1926-1929 ratio of new capital security issues to uses of funds were applied to the 1948 uses of funds, the volume of new capital issues required to maintain the same ratio as existed in the late twenties would be \$14,000,000,000.

(2) New capital stock issues were about 20% of corporate uses of funds in the years 1926-1929. Applying this ratio to the 1948 uses of funds the volume of new capital stock issues would be \$4,900,000,000 compared with the actual figure of \$900,000,000.

Despite the large volume of new capital security issues in 1948, the capital markets did not supply anywhere near the same proportion of business uses of funds as was true in the late twenties. This was even more evident in the case of new capital stock issues.

The ratio of equity funds to total uses of funds was about the same after the war as in the late twenties and the ratio of new capital security issues to corporate uses of funds was lower than in the earlier period. Bank loans supplied business with the added necessary money in the postwar era. The volume of business loans of the banks in 1946-1948 was about 15% of corporate uses of funds. In the 1926-1929 era, business loans of the banks supplied only 2% of uses of funds. It should be readily apparent that had it not been for the tremendous postwar expansion of bank credit there might be greater evidence of a shortage of the supply of business funds. This shortage of funds would be reflected in higher interest rates and bond yields.

Postwar business financing differs from the late twenties in that debt financing is more widespread than in the earlier years. Since 1936 bond yields have been lower than stock yields (Table 1). The spread between the cost of financ-

ing in equity securities versus fixed interest bearing obligations has widened thereby making debt financing even cheaper. Furthermore, the corporation can deduct interest charges on the debt in computing net taxable income thus adding to the relative cost advantage of debt financing.

Effects of Debt Financing

What has been the effect of increasing resort to debt financing upon the capital structures of American industry? It is frequently asserted that while debt financing is large, the wartime increases in net worth were so large that the ratio of debt to net worth is not out of line with the prewar experience (Table 2). The use of aggregate data is unsatisfactory as it obscures relative changes taking place among the components that make up the aggregate. Unfortunately, the only data comparable to the Statistics of Income are for manufacturing corporations (Table 3). Equity provided a smaller portion of funds in 1948 than was true in 1939. The ratio of long-term debt to equity has risen although it is not a cause of grave concern as yet. The ratio of short-term debt to total funds has risen by a considerable amount. Attention has already been called to the potential dangers that may stem from this development.

Table 4 contains a breakdown of sources of funds for corporations in four different industry groups. The data are not strictly comparable; in 1939-1944, information refers to all corporations included in the "Statistics of Income"; the 1945-1947 data refer to the sample of 279 large corporations used by the Federal Reserve System. The Federal Reserve Board sample should show a somewhat smaller ratio of debt to total funds than the "Statistics of Income" data. Retail firms have lessened their dependence upon

debt since 1939. Railroads having been badly burned in the twenties, and especially after 1929, apparently learned a lesson and employed their enlarged wartime earnings to reduce their debt. Thus the data show a sharp decrease in debt and an increase in equity. The electric and gas utilities have about maintained their debt-equity ratios. In the communication industry, equity, which provided about 75% of total funds in 1939, supplied less than one-half in 1947. These data go through 1947 only; the heavy resort to debt financing in 1948 would worsen the picture in these industries.

We are interested in maintaining high levels of employment and national income. One of the strategic factors in sustaining current levels of economic activity is the volume of investment. Postwar business financing has relied heavily upon debt financing with a resultant worsening of the debt-to-equity ratios in particular sectors of industry. In view of the fact that increasing reliance upon debt is found in many of the industries which plan to expand their investments in 1949 there is real cause for concern about the growing resort to debt in order to obtain funds.

Factors Offsetting Increased Debt

Thus far the increased use of debt in postwar business financing has been offset by two factors.

(1) In 1948 the liquidity position of American corporations, judged by the ratios of liquid assets, quick assets or current assets to current liabilities was still very favorable compared with prewar years although liquidity was reduced from the 1946 high.

(2) Net corporate debt at the end of 1947 was \$99,000,000,000 compared with \$89,000,000,000 in 1929. The net debt was 57% of disposable income of individuals in 1947 as contrasted with 100% in 1940, 107% in 1937 and 108% in 1929. Furthermore the corporate debt was only five to six times corporate profits in 1947 compared to 16 times corporate profits in 1939 and 11 times in 1929. The debt is less burdensome due to increased profits and decreased interest rates.

In concluding this article, I wish to point out that within ill-defined limits it is desirable to maintain a high ratio of equity to total funds in corporate capital structures. A heavy "layer" of equity provides greater flexibility in the economy and averts the "through the wringer" deflation associated with creditors forcing financial readjustments upon defaulting debtors. However, at least since the middle thirties a preponderant proportion of the personal savings of the community has been made available to business via the debt route. Any satisfactory examination of the causes of this phenomenon are beyond the scope of this article.

The changing distribution of income by income class has affected the nature of the savings performed in our economy. Data on the distribution of income by size classes and changes in that distribution are far from satisfactory. Nevertheless the available information indicates that the distribution of income is now less concentrated than before the war. If data were available they might show this trend was also present in the twenties. The movement toward a less unequal distribution of income has led to an increase in the percent of total savings provided by the lower and middle income classes. Thus, relatively more of the savings are found in the hands of the "unsophisticated" saver who places his money in the hands of institutional investors who are restricted by law to investment outlets in debt form.

It is not likely that we will stem the tide in favor of more

egalitarianism. Under the circumstances it would appear necessary and desirable to take two courses of action to stimulate investments in equities.

First, we should attempt to create conditions which are more favorable to the acquisition of equities with savings. Revision of the tax laws ranks high in this form of relief. High personal income taxes and high progression discourages investment where the chances of gains or loss are great. Limited rights to average incomes over periods of years make the situation even worse. Double taxation of dividends, first as corporate income and then as income accruing to individuals, discourages equity investments especially as tax rates of both types have increased. Estate and inheritance taxes often involve liquidation of equities to prepare to meet these taxes. These taxes tend to remove property from the hands of a group that historically was interested in equities.

Technical revision of the tax structure will help in encouraging the flow of savings into equities but this assistance will be limited so long as the current level of rates is maintained. The prospects of any substantial reduction in tax rates are not very bright hence there seems little likelihood of any sizable net investments in corporate equities by individuals.

Since the major volume of personal savings will continue to go to financial institutions it appears that the second course of action designed to encourage the flow of savings into business equities would be to overhaul our existing financial institutions. Foremost among such reforms would be granting permission to institutional investors to increase their acquisition of corporate equities.

Halsey, Stuart Offers Cambridge El. Lt. Notes

Halsey, Stuart & Co. Inc. offered publicly, May 6, \$2,750,000 Cambridge Electric Light Co. 25-year 2½% Notes, Series A, due April 1, 1974 at 100% and accrued interest. Award of the Notes was made at competitive sale on the firm's bid of 100.177.

Of the net proceeds, \$1,750,000 will be applied by the company to the payment of outstanding promissory notes and the balance, with funds from its working capital, or an aggregate of \$1 million, will be repaid to its plant replacement fund.

The notes will be redeemable at general prices ranging from 103.63% to 100% and at sinking fund redemption prices scaled from 100.61% to 100%.

The company sells electricity directly to the City of Cambridge, Mass., to approximately 36,450 customers and at wholesale to the Town of Belmont for resale. Surplus steam is sold at wholesale to an associate company, Cambridge Steam Corporation, for resale to Harvard University and 15 industrial customers in Cambridge.

With Edward E. Mathews

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—Henry C. Hastings has become associated with Edward E. Mathews Co., 53 State Street, Boston, Mass. Mr. Hastings was previously with Investment Programs.

With Dayton & Gernon

(Special to THE FINANCIAL CHRONICLE)

MADISON, WIS.—Hugh J. Winters has become associated with Dayton & Gernon, 1 South Pinckney Street. He was formerly with Standard & Poor's Corp. and Fitch Publishing Co.

Table 1
BOND YIELDS AND STOCK YIELDS

	Bond Yield	*Pfd. Stk. Yield	Com. Stk. Divid. Yield
1921-1948			
1921	7.0	6.8	6.5
1922	6.0	6.1	5.8
1923	6.0	6.1	5.9
1924	5.8	6.1	5.9
1925	5.5	5.9	5.2
1926	5.2	5.8	5.3
1927	5.0	5.5	4.8
1928	4.9	5.1	4.0
1929	5.2	5.1	3.5
1930	5.1	5.0	4.3
1931	5.8	5.0	5.6
1932	6.9	6.1	6.7
1933	5.9	5.8	4.0
1934	5.0	5.3	3.9
1935	4.5	4.6	3.9
1936	3.9	4.3	4.4
1937	3.9	4.4	4.9
1938	4.2	4.3	4.3
1939	3.8	4.2	4.6
1940	3.6	4.1	5.6
1941	3.3	4.1	6.4
1942	3.3	4.3	6.1
1943	3.2	4.1	4.6
1944	3.0	4.0	4.6
1945	2.9	3.7	3.8
1946	2.7	3.5	4.6
1947	2.9	3.8	5.2
1948	3.1	4.2	5.8

*High grade stocks.
SOURCE: Department of Commerce.

Table 2
RATIOS NET WORTH TO TOTAL ASSETS FOR ALL INDUSTRIAL GROUPS EXCEPT FINANCE

Year	Ratio of Net Worth to Total Assets Including Surplus Res.	Ratio of Net Worth to Total Assets Excluding Surplus Res.
1938	31.8	59.5
1939	61.7	59.2
1940	61.0	58.2
1941	59.2	55.7
1942	59.0	54.4
1943	59.2	53.9
1944	60.7	55.4
1945	63.7	59.0
*1948	64.1	59.4

*Estimated by Council of Economic Advisers.
SOURCE: Statistics of Income.

Table 3
BALANCE SHEET ITEMS ALL MANUFACTURING CORPORATIONS (Percentages)

	Percentage Short term debt	Percentage Long term debt	Percentage Equity	Total	Ratio long term debt to equity
1939	15.9	9.3	74.8	100.0	12.4
1944	27.7	6.6	65.7	100.0	10.0
*1947	21.5	8.5	70.0	100.0	12.2
**1948	21.3	9.8	68.9	100.0	14.3

*End of 1st quarter. **End of 3rd quarter.
SOURCE: 1939-1944 Statistics of Income, 1947-1948 Federal Trade Commission and Securities Exchange Commission "Quarterly Industrial Financial Report Series, for all U. S. Manufacturing Corporations, Third Quarter—1948."

Table 4
BALANCE SHEET ITEMS SELECTED INDUSTRY CORPORATIONS (Percentages)

	*1939			
	Retail	Railroads	Elec. & Gas	Communication
Short term debt	27.6	14.2	6.6	5.1
Long term debt	8.6	42.4	42.3	22.0
Equity	63.8	43.4	51.1	72.9
Total	100.0	100.0	100.0	100.0
Ratio long term debt equity	13.5	97.7	82.8	30.2
	*1944			
Short term debt	27.7	19.5	8.2	9.1
Long term debt	6.0	33.5	39.1	20.2
Equity	66.3	47.0	52.7	70.7
Total	100.0	100.0	100.0	100.0
Ratio long term debt equity	9.0	71.3	74.2	28.6
	**1945			
Short term debt	27.0	8.1	6.1	13.0
Long term debt	4.4	36.8	40.8	29.6
Equity	68.6	55.1	53.1	57.4
Total	100.0	100.0	100.0	100.0
Ratio long term debt equity	6.4	66.7	76.7	51.5
	**1947			
Short term debt	25.7	7.3	7.0	9.7
Long term debt	4.4	35.8	41.5	43.6
Equity	69.9	56.9	51.5	46.7
Total	100.0	100.0	100.0	100.0
Ratio long term debt equity	6.3	62.9	80.6	93.3

*Statistics of Income. **These data not strictly comparable with data in Statistics of Income. Based on Federal Reserve Board sample of 279 large corporations.

Havana ITO Charter a Dishonest Document

(Continued from page 7)

trade and undermine our individual free competitive system.

Everyone agrees that the Havana Charter is a bad Charter, but its supporters have coined in its defense the slogan: "It is better to have a bad Charter than no Charter." One of the American negotiators of the Charter wrote in the April issue of "Foreign Affairs" that: "It is true that the Charter fails to guarantee the restoration of conditions that would satisfy the ideal requirements of economic liberalism. . . . The real question to be asked is whether the Charter affords an opportunity to establish trade relationships better than those that are certain to obtain if it should not be approved."

Another defender of the Charter puts the same issue in the following manner: Planned economies have a strong propensity for economic nationalism. Therefore, if we can set up an organization which will promote world trade on an expanding scale, economic conditions will improve in all countries, and the tide of government interference with private trade and usurpation of its role will subside.

Now, it is a fact that nobody, but nobody, has offered any common-sense explanation as to how the Havana Charter would promote the expansion of international trade, while a careful examination of the Charter leads to exactly the opposite conclusion. I assume that the supporters of the Charter believe that our representatives on the I. T. Organization will be able to contain economic nationalism by the use of charm and persuasion. You may have noticed that I did not mention our economic power among the fighting means which would be at the disposal of our representatives in the I.T.O. organization. Why? Because incredible as it may sound, the sad fact is that on ratifying the Charter we would also surrender our main weapon against nationalistic economic wickedness, namely the power to retaliate. On the other hand, Article 21, 4(b) makes it clear why the Havana Charter would perpetuate quotas and restrain international trade. Article 21, 4(b) condones domestic policies which inevitably lead toward balance of payments deficits and exhaustion of international monetary reserves, which in turn the I.T.O. accepts as justifiable reason for instituting quotas.

The defenders of the Havana Charter like to point out that the exceptions in the Charter will not enable any country to do anything that it was not already free to do. This is true except that before we sign the Charter we can retaliate. Once we have ratified the Charter we shall have surrendered our main weapon against nationalistic economic wickedness, namely the power to retaliate. The Havana Charter affords an excellent opportunity for the great multitude of nationalistically inclined countries to gang up on the United States; it affords an opportunity for large and socialistic countries to organize the majority of the I.T.O. membership in such a way as to force us to accept discrimination against ourselves while we remain committed to the granting of the Most-Favored-Nation treatment to all members of the I.T.O. There is no instance where a country will willingly accept to be tied hand and foot by a large number of other countries, all of which maintain for themselves complete freedom of movement. In the I.T.O. Charter negotiations fifty-odd debtor countries have combined in order to weaken the economic defense weapons of the one major creditor country, namely the United States. Some defenders of the Charter assert that because of our economic

strength we shall never use the power to retaliate. Even if their arguments were valid in many circumstances, no one is sure that the argument would prove valid in all circumstances, and particularly after the Marshall Plan aid finishes. Therefore, we should not give up our right to retaliate, which is a right recognized even in international law as a right of defense.

One other argument is set forth in favor of the Charter. It usually runs as follows: The existence of socialistic and nationalistic countries is a fact. The I.T.O. Charter makes it possible for state socialism and free enterprise capitalism to work together. Now, this assertion is true, but the price of the achievement is not mentioned. The price is restriction of international trade, discrimination against the U. S. A., and undermining of the free enterprise competitive system. We have lacked at the right time the vision and courage to provide the necessary assistance to Great Britain to make it possible for her to resume the free convertibility of the pound and to reintegrate free multilateral trade. I don't think I need to demonstrate to you that there is no hope of restoring free trade in the world as long as the British problem has not been solved, and I should like to add now, as long as Great Britain remains a socialistic and nationalistically planned economy. I don't think we can or that we should fight socialism in Great Britain for the good reason that people learn only by experience and suffering. Is it, however, our mission and interest, is it the interest of human freedom, that we support socialism more than is strictly necessary to prevent intolerable hardship? In ratifying the I.T.O. Charter we would help socialism intellectually and materially, to our detriment and at the risk of undermining our own economic system.

Because we have not the intellectual wits and the political courage to devise a strategy which will make the British people understand that socialism means ruin and poverty, and thereafter help Great Britain restore the free convertibility of the pound, we accept the Charter with the unwarranted hope that it will help Great Britain balance its foreign accounts. The supporters of the Charter hope that the Charter will enable Great Britain balance its foreign accounts by permitting her "to trade multilaterally on a unilateral basis" and by making it possible, through discrimination, for Great Britain to fight more effectively American competition in foreign markets. In a recent issue of the "London Economist" one can read, that after the end of the Marshall Plan: "American export industry may have to reconcile itself to the permanent loss of its European markets; it may have to permit discrimination against itself."

The defenders of the Charter contend that by some mysterious, undisclosed process the I.T.O. organization would help the expansion of world trade, and thereby also contain economic nationalism. They are unable to prove their case and therefore, in the final analysis, have to base their arguments on the profession of good intentions and on false, unwarranted hopes. As you well know, hell is also paved with good intentions.

The supporters of the Havana Charter might still have a case, if at least we could enter the entire organization on an equal basis without surrendering in advance vital rights and the main weapon of economic defense, and if the organization would provide us with a forum, or club if you like, where we could discuss ways and

means of expanding free international multilateral trade, which ought to be the main purpose of such an organization.

But the Havana Charter is not a neutral, unbiased constitution of the proposed new organization. It is a distinct victory of economic nationalism over economic internationalism. The Havana Charter endorses intellectually all the economic fallacies on which economic nationalists rest their case. It gives intellectual support and material aid to socialistic planners to our detriment and at the risk of undermining our own economic system and our free society. Let me make clear how the Charter furthers economic nationalism because this is one of my main arguments against the Charter. I for one am less concerned with the damage to our country, as expressed in dollars and cents, than with the danger, inherent in the Charter, to the survival of our individual freedom.

In the Havana Charter all countries undertake the obligation to attain and maintain full employment. The provisions regarding full employment do not belong in the Charter, but our negotiators have accepted their inclusion at the insistence of Great Britain and Australia. The purpose of including these provisions in the Charter was to force the hands of the United States in this socialistic issue, and is based on the theory that the United States imports substantially and puts sufficient dollars at the disposal of the world only when we are prosperous and booming.

The difference between the defenders of economic liberalism and those nationalistic planners is not the desirability of a high level of employment, by which we at least mean productive employment, but in the means to be used to attain and maintain a high level of productive employment. We want the maintenance of a high level of employment without the deterioration of the currency. It is, however, an unchallenged fact that the doctrine of full employment as understood by the Keynesian school of economics (which is the intellectual basis of the Havana Charter) entails national planning, economic nationalism and monetary inflation. The monetary inflation made necessary by an over-riding policy of full employment to be pursued regardless of other considerations entails, in a mass democracy with powerfully organized labor unions and other selfish interests, monetary inflation, balance of payments difficulties, exchange controls and importation quotas. The use of exchange controls or quotas by countries like Great Britain or even France makes the restoration of free multilateral trade impossible. (Exchange controls and quotas are the main weapons of totalitarianism and of socialistic countries. Besides, let us not forget that exchange control is a diabolic and tyrannic weapon in the hands of a government, and that it creates black markets and is the source of fraud and moral corruption which permeates the entire social body of a country.) The test whether the I.T.O. Charter will help or prevent the expansion of international trade is whether it will help us get rid of exchange controls and quotas. One is at a loss to understand how the Havana Charter will help us get rid of exchange controls and quotas. The Havana Charter not only fails to remove the most effective barriers to world trade, namely quotas, but condones and perpetuates them. The greatest sins against the expansion of free trade are committed in the name of the modern bogey of "balance of payments difficulties." The well-known British Professor, D. H. Robertson,

in an article published in the "Economic Journal," had the following pertinent remarks to make regarding the modern bogey: "what are politely called 'balance-of-payments difficulties' do not necessarily drop like a murrain from heaven . . . any nation which gives its mind to it can create them for itself in half an hour with the aid of the printing press and a strong trade union movement."

All economists are aware of the conflict which exists between nationalistic economic planning for full employment on Keynesian principles and free international multilateral trade. Believe it or not, the Havana Charter purported to foster international trade, gives precedence to full employment to the detriment of international trade.

Article 21,4(b) provides:

"No member shall be required to withdraw or modify restrictions which it is applying under Article 21 (restrictions to safeguard the balance of payments) on the ground that a change in such policies (namely full employment policies) would render these restrictions unnecessary."

In other words, this provision of the Charter gives American material support and intellectual endorsement to national planning, economic nationalism, exchange controls and quotas, and socialism, to the detriment of international trade and peace. Article 21,4(b) would perpetuate quotas because full employment policies on Keynesian principles are bound to create balance of payments difficulties and exhaust the international monetary reserves of a country.

Article 21,4(b) is a real funny one on us and all other free trading nations. Countries indulging in socialistic full employment policies are bound to have overvalued currencies, balance of payment difficulties and exchange controls. Article 21,4(b) permits a country to use means for maintaining full employment which hurt the trade of other countries and created unemployment in those countries. Furthermore, countries which use exchange controls or quotas make the restoration of free multilateral trade difficult or impossible, according to their economic importance.

If there had been any fair play in the negotiations of the Charter and if we had been keen not to compromise the chances of our own economic system, the Charter should have provided clearly and in red letters that:

"Members undertake to avoid in full employment policies measures which have the effect of hurting other nations or of reducing international trade."

Instead of that we got Article 21,4 (b) which endorses economic nationalism, permits the restriction of international trade and endangers peace.

At this point, you may rightfully raise the question whether member countries are not free presently to do what they like in their full employment policies, and whether the adoption of the Charter would worsen the present situation?

It is extremely important that you should understand clearly the consequences of Article 21,4(b) because this Article more than any other one in the Charter entails the surrender to economic nationalism. It is this Article which permits a country, in the name of full employment, to establish importation quotas without any conditions or reservations. Now, importation quotas are an alternative to exchange controls, thus defeating a fundamental undertaking of all countries under the rules of the International Monetary Fund.

In the Monetary Fund, all participating countries have undertaken to remove persistent balance of payments deficits and ex-

change controls. The Fund has no right to question a change in the exchange rate, which may have become necessary as a result of full-employment policies, but it can, and it is its duty to, take issue with a country which has persistent balance of payments deficits and exchange controls. A change of the exchange rate helps the functioning of the price mechanism and therefore fosters the free exchange of goods and the restoration of automatic equilibrium. Exchange controls and quotas prevent the working of the price mechanism, and are tyrannical, arbitrary and discriminatory weapons in the hands of governments. **The ITO Charter, by preventing us from retaliating against countries which institute quotas, is undermining one of the main purposes of and obligations under the International Monetary Fund.**

On June 15, 1948, Mr. Wilcox, one of the negotiators of the Charter, made the following statement before the United States Chamber of Commerce:

"One serious weakness is this: The I.T.O. will have no authority to intervene in the domestic policy of any country in any way. This means that a country may remain in balance-of-payment difficulty through bad domestic economic measures and the I.T.O. will have no power to correct the situation. This is serious, since it means that the period during which import quotas are permitted may be prolonged. But no nation on earth is ready to surrender its economic sovereignty, least of all the United States. This country would not have agreed to a provision which would have given the I.T.O. power to interfere with our domestic policies."

The statement by Mr. Wilcox only confirms my contention that the I.T.O. is undermining the fundamental undertaking in the Fund, namely to remove persistent balance of payments deficits and exchange controls. And as long as countries like Great Britain have exchange controls and quotas, there is no chance of reestablishing free multilateral trade.

I don't know who is the original author of the specious argument that the request that a nation should remove persistent balance of payments deficits is, in fact, "a request for the surrender of economic sovereignty." This argument is a hoax. The history of the world is full of crimes against international cooperation and peace in the name of national sovereignty. Nobody has proposed to interfere with the domestic implementation of full-employment policies of a country. A country should be free to adopt whatever domestic policies it chooses provided, however, it does not hurt other countries. This proviso is sound and reasonable. It is our right to ask from any country that whatever action it takes to implement a "full employment" policy, such action should not hurt other nations. By asking a country to remove persistent balance of payments deficits, exchange controls and quotas, we are simply asking a country not to hurt other countries, not to adopt beggar-my-neighbor policies and to help the expansion of free international trade. This is the only request we make, which is just and reasonable, to which in fact all the countries have already subscribed to in the I.M.F. and which obligation would be undermined by Article 21, 4 (b).

It is clear, I hope that Article 21,4 (b) is one of the most dangerous ones in the Charter, for the preservation of our economic system, for the expansion of international trade and for peace. Therefore, it is incredible that the Guide to the Study of the Charter published by the State Department should not even mention Article 21,4 (b) among the

key provisions of the Charter which are enumerated in a summary published as an introduction to the Guide.

Another objectionable Article which our negotiators should not have accepted is Article 6, which is based on the theory that a serious or abrupt decline in foreign demand may exert deflationary pressure on a member's economy, and it is asserted that members may need "to take action, within the provisions of the Charter, to safeguard their economies against inflationary or deflationary pressure from abroad." This Article endorses the principle of economic insulation. Representatives Fulton and Javits, in their report on the I.T.O. Charter, confess that they are mystified by the meaning and scope of Article 6, and request that our government ask for an interpretation of this Article before it ratified the Charter.

I have dealt with this Article at some length in my book "The Economic Munich." It raises vital

questions which I do not wish to discuss here again. Unless I am grossly mistaken, I think that the main reason for Article 6 in the Charter is to provide a new escape for imposing quotas which Great Britain might not be able to impose under the other provisions of the I.T.O. Charter in case of a depression in the United States.

My conclusion is that the Charter should be rejected because it would further economic nationalism and restrain international trade, at great risks to our own system. The Charter is a bad and intellectually dishonest document because there was no meeting of minds between the U. S. A. and Great Britain in the fundamental questions of free convertibility of currencies and free international trade. The I.T.O. Charter would put shackles on American competition and permit the perpetuation of quotas, which are indispensable to countries indulging in socialistic planning.

too low. So, a deficiency appropriation restored the original cut, plus a further increase which was needed.

I believe that experiences of this kind should make everyone skeptical about the meaning of budget cuts. Everyone is for economy—in someone else's functions. And temporary "tongue-in-cheek" appropriation cuts help the game along.

Now let us take stock of the changes in the estimates which I have mentioned. Taken together, they would add about \$2 billion to estimated expenditures in fiscal 1950, bringing the cash operating outgo to about \$47 billion. This would be \$7 billion higher than the present fiscal year.

Thus, it is clear that an enormous expansion in Federal outlays is in process; and this will reinforce the business situation significantly.

Now, if the Federal Government is going to spend \$47 billion in the fiscal year 1950, will our present tax structure be able to finance this amount? According to the budget estimates in January, each operating income in 1950 will run to more than \$45 billion before any new social security taxes and to more than \$47 billion if social security taxes and coverage were enlarged as suggested by the President. Here again, let's split the difference and assume that about half of the social security program goes through. This would give us a figure of \$46 billion for cash operating income as a bench mark.

There is reason to believe, however, that this estimate is too high. In making the revenue estimates for the budget, it was assumed that the level of business activity and the flow of income, both to individuals and to corporations would remain at the very high levels reached in the fall of 1948. I think that was a sensible assumption at the time, since it centered around the idea that the inflation would stop at that point and level out. Subsequent events show that new peaks were then reached toward the year-end; there has been some receding this year; and this process of tapering off may easily continue. Under such conditions, the revenue estimates for fiscal 1950 are going to be too high. The result is that we have a Federal deficit staring us in the face—both a cash operating deficit and an enlarged formal budget deficit.

In view of this situation, I should say that the idea of a tax increase may come to life again. The ultimate decision on a tax increase by Congress is likely to rest more on business psychology than on straight budget figures, however. If business psychology remains weak, no tax increase is likely. If business psychology improves, there yet may be a tax increase of \$1 or \$2 billion, directed mainly against business.

And now a word about state and local governments. In this case, we also have a rising expenditure pattern. Total state and local expenditures this year are expected to be at least \$1 billion more than last year in view of the fact that public works programs are still expanding. The expansion will probably continue for some time since highways, schools, hospitals, etc., are still deficient because of deferred maintenance, population shifts, etc. It will probably be many years before these public works will be brought up to prewar standards. The expansion in this field at this time offers another aid to business activity which was not so important in 1920.

So much for Part I of this analysis. Now I should like to turn

to Part II, which concerns the various economic props and supports which government programs provide.

II

The government is very much interested in two general objectives in the current economic situation, namely, overall stability, and balance between different parts of the economic structure. Most of the present programs dealing with these objectives were not known in 1920 or, if known, were operated very crudely.

This has been particularly apparent in the case of fiscal and monetary policy. The basic idea of fiscal policy is new within the last generation. There is a growing realization that the government's finances exert tremendous pressure on the whole economic picture, not merely with respect to their size, but their composition and nature also are of great importance. The government's finances are much more closely geared to counteract the business cycle. There is more flexibility built into the government's budget designed to operate automatically to a large extent. Income taxes provide an example of built-in flexibility because receipts from this source go up faster than business in good times and go down faster than business in bad times.

In the case of monetary policy, there is also a new sense of balance. Government officials have stated time and again that relative stability in the money markets is desirable. The government securities market has been protected as part of this policy. The government has been determined to avoid the experience in the spring of 1920, when government bonds went through a downward spiral which brought the Liberty Bond 4½s to 82 in a very short time and scared everybody badly. The support of government bonds last year was hotly debated, but in my opinion, the authorities acted very wisely to prevent a repetition of the 1920 collapse in the bond market.

Similarly, the Federal Reserve system has acted with laudable perspective in its credit operations. This is in sharp contrast to the situation after World War I. For example, the discount rate in the Federal Reserve Bank of New York went from 3% in 1917 to 4% in 1918; in December, 1919, it was raised to 4¾%; in January, 1920, it was raised to 6%; and in June, 1920, it was raised to 7%. The recession of 1920 started at about this time and was almost over before any reductions in the discount rate were made effective.

Looking backward, the Federal Reserve policy after World War I seems to have contributed to the recession significantly. It seems to me that Federal Reserve policy this time has been remarkably good and that as a result our business structure is in much better condition.

In addition, the field of agriculture is now broadly supported by government. The farm program is certainly controversial and I do not know whether we are going to continue with the old kind of price supports or shift to the proposed new guarantees of farm income. But whatever program is adopted, agriculture is going to get some kind of assistance which it did not have after World War I. Right or wrong, the government's agricultural support activities are designed to keep a balance between farm and non-farm areas.

The social security system, particularly unemployment insurance, is another example of a program for stability which was not in effect in 1920. Already this year, the increase in unemploy-

ment benefits has served to offset a portion of the decline in personal income from manufacturing payrolls and farm income. The Veterans' Aid Program supplements the general social security activities.

Another important area of economic support lies in the broad insurance programs provided by deposit insurance and mortgage insurance. The importance of these consists primarily in the contribution to the maintenance of confidence generally. It is well to remember that uncertainties sometimes feed on themselves and grow into major fears, and even panics. The insurance of deposits and of mortgages makes it far more likely that confidence will be maintained.

Now, in concluding Part II of this analysis, I should like to make it clear that I do not, for one minute, regard these various programs as a cure for all our economic troubles. Moreover, I am certainly not prepared to argue that all of the programs are desirable in concept or in execution. There is a tremendous element of controversy in what the government should do and how it should be done. Probably no one is satisfied with the whole government program for economic props and supports. Violent differences of opinion exist both as to the matter of what the government functions should be and as to how they should be carried out.

However, we are not concerned with the broad field of policy tonight. In considering current economic conditions and trends, we must face the fact that these government props and supports exist, and that, generally speaking, they are designed to maintain stability and balance in the economy—in sharp contrast to the experience of 1920.

And now a brief summary. In the present postwar period, government is much more important in economic matters than in the period following World War I. At the time of the 1920-21 recession, Federal expenditures were still declining. In contrast, they are rising today and the fiscal year 1950 will see the highest level of spending by the Federal Government ever witnessed in peacetime. Expenditures of state and local governments are also rising.

This is about the only area of our economic machine which is still expanding. It will provide some stimulus to business activity even if expenditures are fully covered by taxes, which is unlikely. This is because a tax dollar in the hands of the government will be 100% spent, whereas in the hands of individuals and businesses, there would be a desire to save some of it. In the present situation, this is a business stimulus, whether or not it is a good thing in the long run.

In addition, the government has a whole system of props and supports designed in the interests of stability and balance in the economy. Fiscal policy is now geared to the problem of the business cycle. We have had a relatively stable money market, a protected government securities market, and there has been no attempt to push credit controls to extremes which might contribute to a recession. The field of agriculture is going to be supported in one way or another. The social security system aids in achieving stability. Finally, we have deposit insurance and mortgage insurance. Taken together, these props and supports probably satisfy no one, but there is no doubt that the present economic situation is sharply different than in 1920 because of these programs, if for no other reasons.

The Outlook Related to Gov't Spending and Support Programs

(Continued from page 6)

tures of the Veterans' Administration, which present a confusing picture. In the current fiscal year, veterans' expenditures are running well above the budget estimates. This is due primarily to the fact that veterans are participating in the education program to a larger extent than was expected, particularly because of shifts from part-time to full-time status. This may be connected with the weakening of the general employment situation this spring.

Notwithstanding this situation, the House of Representatives has taken the position that requests for benefit payments in fiscal 1950 will run 10% below the budget estimates. My own opinion is that this is wishful thinking. It seems to me that recent trends will probably continue in fiscal 1950 and veterans' expenditures will accordingly exceed the budget estimates by about \$½ billion.

Third, there is also some confusion about the ECA program. It seems generally agreed that the ECA appropriation is going to be cut. The President has already suggested a cut of \$150 million because of lower prices and Congress will probably make a larger cut.

This is probably not going to affect expenditures much in fiscal 1950, however. Expenditures in the current fiscal year are running below the estimates and it seems likely that unexpended funds on hand on June 30 will be more than enough to offset the expected cut in appropriations for next year. So, I am not inclined to allow for a decrease in the estimated expenditures on account of ECA.

Fourth, the President's budget appears to have too low an estimate for agricultural support activities. The Budget contemplates expenditures of \$538 million in fiscal 1950 as compared with \$863 million in fiscal 1949. Both figures appear to be too low, judging from Department of Agriculture crop reports and assuming continuation of the present type of support program. I think it is reasonable to estimate that the 1950 expenditures on farm supports will run about \$½ billion above the budget estimate under present law. The new farm program suggested by Secretary Brannan would apparently cost a great deal more, but no estimates have been given. The new program is in such an uncertain state

at this time that I think we had better ignore it tonight.

Fifth, expenditures under the social security program will run higher than estimated because of the upward trend in unemployment. The Budget did not allow for the increase in unemployment which has already occurred and it is likely that some further increase may occur in fiscal 1950. It is difficult to make an exact estimate for this increase in Federal outlays in fiscal 1950, but I think it will be at least \$½ billion.

I have purposely concentrated on the big items. In the case of the smaller changes, I would merely like to point out that increases appear to exceed decreases on net balance.

It must seem perplexing to many people to constantly read about big cuts being made in appropriations while the expenditure figures keep right on increasing. There is a simple explanation for this. The appropriations for each government department are usually passed some time between January and the end of June to make funds available for the forthcoming fiscal year, which begins on July 1. Very often, sizable cuts are made in appropriations at this stage and they are given considerable publicity.

Then, some time after the fiscal year starts, many of these cuts may be quietly restored by Congress, in the form of deficiency appropriations—which simply means appropriations to take care of a shortage in funds within the current fiscal year.

Sometimes the cuts in appropriations actually envisage no curtailment of the function involved, but merely represent a more optimistic guess as to how much the government will be called upon to pay with regard to some obligatory program. I have already noted one example, namely, that the House of Representatives in this session reduced the appropriation for Veterans' benefits by 10% on grounds that they thought less demands would be made by veterans than the Budget Bureau had estimated.

The Eightieth Congress did a similar thing once in the case of tax refunds. They cut the appropriation on grounds that the estimate of refunds to be claimed by taxpayers was too high. It later turned out that the estimate was

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market action indicates near-term bottom. Any minor advance from present levels may change picture to major uptrend.

When last week's column was written the market hadn't said anything; and so far this week's market is equally mum. There is a lot of milling about, with some stocks holding up and others doing the opposite. But basically it's another stand off.

One of the important things that occurred was seen in Monday's market and followed up in Tuesday's market. On Monday stocks started to sag, with some issues, particularly the steels, performing quite badly. It may not be the best thing in the world to buy the steels. But, often, as the steels go, so goes the market.

The following day, Tuesday, the market started to show a resistance to the previous day's decline, which is the first stage of what technicians call a down-failure. Perhaps, the second stage will be seen. This second stage of a down-failure is a turnaround of previously weak stocks with other stocks that had been standing still, creeping to the fore with gains, often closing the day with plus marks.

Such action is quite common in a secondary stage of a market cycle. It is caused by a number of factors, chiefly public confusion. According to a strict interpretation of the Dow theory, the secondary trend of the market is up; there is no recognizable minor trend and the major trend is down. A whipsaw during this phase is almost common. It takes pretty nimble trading not to get caught in the minor swings.

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Fresno—Santa Rosa

Last week this column, commenting on various stocks recommended for purchase in the recent past, advised certain procedure. Cooper Bessemer, which was bought at 28 was to be sold if it increased its gain so it got somewhere between 36 and 38. During the week it hit 36 a number of times and backed away. I assume you sold it, getting a profit (gross) of eight points.

Dresser, bought at 21½, stop 18, managed to hit 24 and a small fraction, and then backed away again. Its action is a little better than the market and in any general advance it should go up. However, the stop shouldn't be forgotten.

Bristol Myers, bought at 31, manages to stay above its 29 stop. Stock has not been acting too well for the past week or so, but the suggestion to hold it unless it breaks stop level, still goes.

Last week Newport Industries was recommended as a buy around 10, with a stop at 8½. It managed to get to 10 during the week before making a high of 11. The advice to buy it was based on the fact that it looks to be completely liquidated.

More next Thursday.

—Walter Whyte.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Business Man's Bookshelf

Household Finance Corporation—1948 annual report—Household Finance Corporation, Chicago, Ill.

Economic Theory of Cost of Living Index Numbers—Melville J. Ulmer—Columbia University Press, Morningside Heights, New York, N. Y.—Cloth—\$2.00.

New Industry Comes to the South—Summary of the Report of the NPA Committee of the South on Location of Industry—National Planning Association, Washington, D. C.—Paper—\$1.00.

Oil Industry, The 1949—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York 19, N. Y.—Paper—50c per copy (25c to Public Libraries and Nonprofit Institutions).

Sun and Mankind—J. C. Piver—A theory of the importance of gold in human affairs—Room 391, 2 East 24th Street, New York 10, N. Y.

A. H. Randell Opens
(Special to THE FINANCIAL CHRONICLE)
NILES, OHIO—Arnold H. Randell is engaging in a securities business from offices at 1106 Bruce Court.

Strengthening Our Economy

(Continued from page 11)

Wages and prices are determined in large measure by the conscious and deliberate actions of business organizations, labor organizations, and others to a lesser degree. The future of our free enterprise system depends largely upon whether these price and wage policies are made with wisdom and foresight and temperance and with a sound understanding of their profound effect upon general levels of economic activity—in the longer run and not only for the moment of quick and transitory gain.

Soberly considered, one of the most heartening aspects of this postwar period has been the degree to which those within our private enterprise system have learned more about our economy and how it works, contrasted with the situation after World War I. I firmly believe that one of the most important reasons why we have thus far avoided a serious recession has been the increasing skill of businessmen in their pricing and inventory policies, and the increasing responsibility of labor in its wage negotiations. There have been some excesses on both sides, but there has been an immense amount of moderation and foresight. If further downward price adjustments can be made with calmness and skill and are directed toward maintaining high employment and production by market adjustments rather than viewed as a sign of business decline, and if wage demands can be kept in line with productivity, there is no tangible reason why we cannot pull successfully through this trying year and hand up an unparalleled record of transition from a postwar boom to a long period of sustained prosperity without intervening hard times.

But realists will recognize—and I hope that this may come to be another area of increasing agreement between business and government—that neither management nor labor can attune its policies to the whole national interest, which is their own long-run self-interest as well, unless they have a sufficiently broad nationwide perspective of what is the true national interest in an economic sense and how they might help to move this interest forward. Yet the nature of our complex economic system makes it insuperably difficult for any single individual or group alone to formulate in full this broader nationwide perspective.

For example, the steel industry, however wise, cannot shape its policies without knowing about matters outside its direct range of competence. It needs to know the outlook for agriculture, and what this means in terms of demand for farm machinery and other equipment involving the use of steel. It needs to know the likely magnitudes of prospective home building. It needs to know the likely trends in government policy which will affect the demand for steel products. In the same manner, no labor organization, however wise, can strive towards sound wage policies in the whole national interest unless both labor organizations and employees have before them some over-all guides as to what balance between production and consumption will promote economic equilibrium instead of throwing our economic machinery out of gear. Likewise, the whole problem of farm prices and incomes cannot be considered independently of the levels of agricultural output consonant with high level industrial activity, high standards of diet for a fully-employed, and well-paid urban population, and sound international economic arrangements.

It is only on the basis of these broader nation-wide perspectives that we can have high hopes that

our private enterprise system will bring prices and wages and other incomes into relationships which will help to keep our economy running at high speed and without undue friction. And it is only by an understanding of the need for working out these kinds of relationships that industry and agriculture and labor can blend their efforts in the common cause of an expanding economy, instead of becoming increasingly at swords' points with one another and thus dragging the economy downward by the weight of their dissension, cross-purposes and conflict.

This means that *modus operandi*, formal or informal, should be encouraged whereby the various factors in our private enterprise economy could more effectively pool their resources and their thinking toward a more mutual appraisal of their mutual problems. Through such cooperation, there might gradually emerge some improved general formulae for what might be called national prosperity policies.

These national prosperity policies would not have any of the aspects of a "national plan." They would not be forced upon anyone. Businessmen, workers, and farmers would be just as free to ignore them or to discount their value as they are now free to ignore the weather reports. But just as the weather reports have become increasingly proficient and increasingly useful to those who make use of such an advisory service, so such national prosperity policies could become increasingly useful in the economic sphere.

Basic Functions of Government

Within the framework of such national prosperity policies, I should like to outline two basic functions of government. The first of these is to take part in the informational and analytical studies underlying such national prosperity policies. These studies might be likened to a comprehensive business advisory service, to be kept current from year to year and revised constantly in the light of experience. The government needs to participate and take leadership in such a service, not because the government can do the job alone, but rather because no one else can do the job alone. By consultation and co-operation between the government and major economic groupings, the service would be constantly subjected to the purifying influence of constructive public criticism. The provision of information and analysis with government aid is wholly within our American traditions. The more successful this undertaking were to become in providing these nation-wide perspectives, and the more successful our businessmen, workers, farmers and consumers were in benefiting by them, the less need there would be for governmental intervention in the actual economic process.

The second essential function of government is to utilize these nation-wide perspectives for the better orientation and evaluation of its own specific policies, relating to taxation, credit, regulation and spending. Thus there would be improved measurement, not only of the direct consequences of government action, but also of all its ramifying effects upon the private economy. This has been an objective long-sought by all thinking people, regardless of whether they favor the expansion or contraction of specific governmental programs.

Importance of Business Psychology

It is vitally important that the business community recognize the essential moderation of the economic thinking among government people, because the economic outlook especially in this

year of adjustment depends largely upon the state of business psychology. I should like to list the following reasons why business should be imbued with high confidence both for the short-run and long-run future:

First, the economic situation is still fundamentally favorable. Civilian employment during the first-quarter of 1949 was higher month by month than during the first-quarter of 1948, and 1948 was considered a very prosperous year. Unemployment, it is true, was about 3,167,000 in March, 1949, or about 727,000 higher than a year earlier. But the level of unemployment is still low, contrasted with an average monthly level of unemployment of about 5½ million in 1941 when total civilian employment was only 50 million as against civilian employment which is more than 57½ million now and likely to be higher at later seasons of the year. Planned business investment in new plant and equipment is estimated at about \$18½ billion for the first-quarter of 1949, contrasted with about \$12½ billion for the first-quarter of 1947 and \$16½ billion for the first-quarter of 1948. Consumer incomes, national income, and total savings are extraordinarily large. Government demand for goods and services will increase considerably throughout the year. Sensational magnification of a few soft spots in the economy, and of some recent increases in unemployment, should not be permitted to distort judgment or to produce a "fear psychology." The outlook for 1949 is still bright, and by optimism combined with the right course of action it can be kept bright.

Second, there has been built into the structure of our national economy a series of devices which by common consent would lessen the effects of any serious recessionary developments and tend to make them less severe. These include the farm price support program, improvement in the banking structure, and social security and other cushioning devices, to name but a few of many.

Third, it is commonly acknowledged that in the event of any serious recession—which is not to be expected and can be avoided—the government would move rapidly and vigorously with counteracting measures. Tax and credit policies would be reformulated to stimulate business investment and consumer demand. Public works would be undertaken quickly. Technically, it is fair to assume that the job would be done as much better than the job done in the thirties as the administration of World War II was better than the administration of World War I. We have learned by experience.

Fourth, the intent and purpose of the government, affirmed by established legislative policy, is not to wait until a serious recession sets in but instead to act to maintain the prosperity which we now have through careful analyses of the dangers which threaten it and through prompt attention to these dangers before they multiply and spread to more unmanageable proportions.

This emphasis upon prevention may be more clearly understood if I say a word about economic forecasting. Forecasting certainly has its place in economic affairs. But it should not be over-emphasized at the expense of sufficiently vigorous efforts to examine current situations and current dangers, set high objectives for the future, and adopt conscious policies to remove the dangers and thus to facilitate the objectives.

Let me illustrate by analogy. If a doctor examines me and finds a condition which is likely to lead to trouble, he may prescribe a

worthwhile remedy now to be applied. True, this implies to a degree a forecast of what the remedy will accomplish, and also of what might happen if it is not applied. But this is very different from the doctor attempting to tell me in just what month or year my wife will collect my insurance if I do not take his advice. If he goes too far in the latter direction, I would begin to think that he is a witch doctor and not the real article.

Similarly, the anti-inflationary program which President Truman first recommended in late 1947 was not based primarily upon an attempt to forecast just how long inflation would last or how soon a bust would come if nothing were done. It was rather an attempt to point out that the existing inflation had dangerous elements, that specific remedies could and should be developed, and that they should be applied promptly. The first question to ask about the President's anti-inflation program, therefore, is not how much danger of inflation now remains in April, 1949, but rather whether we would have been better off now if this program had been adopted when proposed. I think that we would have been far better off, not only because the dangers of readjustment would have been reduced, but also because demonstration of our ability to deal promptly with actual conditions as they then existed would have increased our confidence to deal with new situations as they come into being.

Our economy does not undergo changes so rapidly that policy adjustment and readjustment to cope with current conditions as they evolve is likely to lag far behind the need; while excessive stress upon trying always to shape current policies in terms of forecasts of what may happen later on will leave us always in an unhealthy and uncertain dither that does nobody any good. I am reasonably confident that the processes under the Employment Act of 1946, whereby analyses and proposals are reformulated from time to time, will not leave us without proposals adequately attuned to any existing situation. The big question is whether these proposals will receive sufficient agreement to be applied before the situation to which they are addressed deteriorates into something worse because of neglect.

Since preventive action in time depends more upon attention to existing conditions and upon efforts to reach defined objectives than upon forecasts as that term is commonly understood, it follows also that available policy instruments should be sufficiently broad and flexible to deal with alternative future developments which cannot be predicted with certainty. For example, in a state of high prosperity such as we now enjoy, the economy may move either upward or downward, and it is more important to have both a brake and an accelerator in the machine than to try to guess what lies beyond the next curve. Another reason for a flexible combination of tools, which I cannot develop fully now although I have done so on many previous occasions, is that the maintenance of prosperity requires a combination of measures which cannot be gathered entirely under the traditional heading of anti-inflationary or anti-deflationary devices. These measures might more properly be called stabilization devices, for their essential character is that they are pertinent to a period where a selective mixture is needed because we want to act preventively against forces tugging in more than one direction before we reach either a galloping inflation or a devastating deflation.

The failure to appreciate the essential emphasis upon timely prevention in current government

policies is mainly responsible also for the current business concern that the government wants to intervene excessively in the economic system. This overlooks one vastly important fact: that preventive action against a depression in times of prosperity is more moderate and less costly than curative efforts after a depression is upon us in full force. For example, the proposal to study whether business investment should not be increased in a few basic capacity areas—which is not a proposal for direct government intervention except as a last resort—is infinitely more moderate than the direct efforts which the government would make to stimulate investment if we were to plunge to the bottom of the business cycle. The proposal that the government, in times of prosperity might be called upon to intervene at a few selective spots to prevent price or wage excesses which might throw our whole economic machinery out of gear, is infinitely more moderate than the intervention in the price and wage structure which the government perforce would undertake if we were confronted with a demoralizing collapse of the income structure.

Why, then, are these moderate measures in times of prosperity considered excessive by so many who would counsel far more extraordinary measures in the event of depression? Is it because, while our economic thinking has progressed to the stage where it would welcome anti-depression measures after the catastrophe, it does not yet recognize the necessity for pro-prosperity measures taken in time? Yet all our knowledge of the difficulties and uncertainties of working our way out of a deep depression, after it has arrived, should promote the common sense conclusion that an ounce of prevention is worth more than a pound of cure. When this principle is more fully understood, the first great obstacle to broader areas of agreement between business and government will have been overcome.

In this connection, I want to make another point which should contribute to a better understanding between business and government. This point is that there has been a pronounced shift in the economic thinking of many government people since the mid-thirties. In the mid-thirties, there were many who believed that our business system by its very nature must necessarily run down hill from time to time. Consequently, they believed that government economic policy consisted mainly in stepping in on such occasions to fill in the gap or prime the pump with vast public undertakings. Such devices might again be necessary if we had a large recession or depression. But I believe that the main line of economic thinking within the government now takes a different approach. We reject the proposition that our business system is necessarily unstable. We believe that, by wise action and foresight, our enterprise system itself can successfully apply many of the policies needed to maintain high levels of employment and production. We seek to focus attention upon problems of prices and wages and levels of investment, not because we believe that the government should intervene largely in these matters, but rather because we believe that if our business system itself attends to these problems in time the need for a large degree of intervention will never arise. In short, the government, representing the public interest, is trying to direct more attention and study to the means by which our enterprise system may become more nearly self-stabilizing than in the past.

Fifth, business should derive confidence, particularly, from the emphasis which those in government are placing upon the goal of

constant expansion and growth. It is certainly an ironical commentary upon the lack of perfect understanding between business and government, when some business spokesmen look askance at the philosophy that production and investment and employment should be even higher, and markets even larger, than they now are.

Business and government together should reject the bland assurance that a leveling off of production and employment represents a normal or healthy situation when the postwar boom is over. We are firmly committed by law, by our vital national requirements, and by the world situation to seek the goal of maximum production and employment at all times. This means striving for more output and more jobs from year to year in a growing economy. If this task is becoming more difficult than when we were moving along easily on the momentum of war-created demand, we should redouble our efforts and not give up in defeat. This is the true meaning of making our economic system work. It is the true meaning of American prosperity.

We believe that our business system should grow. Despite some misinterpretation to the contrary, we believe that levels of business investments and profits in subsequent years should be even higher than in past years, but in consequence of true growth rather than unhealthy inflation.

We believe that the first step toward achievement of these higher production and prosperity goals lies in their clear recognition. We want to define more clearly where the bottlenecks and shortages and economic maladjustments are which interfere with constant growth. We believe that, by this improved definition of our common needs and aspirations, industry and agriculture and labor will receive tremendous incentives to their own free and voluntary efforts through more complete appreciation of the immense opportunities lying before them.

The setting in which we must strive to realize our enormous possibilities is a compound of responsible private enterprise and responsible government. The exact line of demarcation between these two areas of responsibility may change from time to time by the conscious decisions of the people. But calling every change a trend toward statism or socialism—which we all profoundly reject—sheds light upon no problem and contributes toward no solution. The ultimate recourse of the American people, in the constant process of making up their own minds about what they want, is to the findings of objective economic study and of the physical sciences as revealed to them through education and public discussion. Anything which leads to broader knowledge, deeper understanding and clearer thinking is an aid to our business system and to our democracy. If we can learn how to pull together in the matter of essentials, any minor difficulties or indifferences can be reconciled or compromised through the solvent of our free institutions.

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ITO Charter Should Be Approved

(Continued from page 6)

ican capital is entitled to have it go.

At the same time, there is recognition in that investment clause that nations may bilaterally initiate agreements which more nearly fulfill their own needs. And if, in connection with the development of this point four, or whatever it may be called, of the President's message—"American technology abroad"—we don't insist on tighter provisions for the protection of our American capital, I should think we are very foolish and there is nothing whatever in the charter that prevents our doing that.

I would like (and I don't do it in any unfair way) to quote from the "News" of the National Association of Manufacturers, of May 8 1949—because you know NAM has gone on record against the charter—but while the issue was still strong, the NAM "News" did say:

"Although the foreign investment regulations of the Havana draft still fall short of what U. S. industry had hoped to obtain, nevertheless, they do offer foreign investors greater protection than they have ever had previously against unjust arbitrary acts by government."

It is interesting to see what the Russian answer said last fall on the subject, because their delegate at the Economic and Social Council alleged that the ITO would exert pressure on countries practicing state control of trade and would secure the economic expansion of the United States over the world—which, of course, is just too bad.

ITO Not All Powerful

There is the completely false, I think ridiculous, idea in some quarters that the ITO is an all-powerful organization, that it can dictate and direct domestic policies. That, I think, is not borne out at all by the facts. The charter is a broad declaration of principles to which governments bind themselves to try to adhere. But I cannot believe that there is anything in that charter that is going to force the United States Government or any other government to do what in their own interest at any particular time they decide is not to their best interests to do.

Each of these 106 provisions can be built up into a big and perplexing issue.

When I started some work on this, I tried to find out how many books there were published in the English language on the Bible. I got the librarian at Philadelphia and two or three other people at work and came up with the fact that there were over 2,000. With every reverence for the Holy Bible, we are still trying to find out what the Bible says and what it means. Therefore, I am not at all worried about the fact that we don't have a common agreement about the meaning of all of these chapters in the ITO.

One can quickly get into a sort of mental erosion, if he listens to the microscopic analysis of each of these articles—unless, of course, he has the willingness and time to do a thorough job of analysis for himself. In this talk today, I have tried to give you sort of a bird's-eye view—I have tried to keep it from being a worm's-eye view—of what this document says.

I submit to you that no document which intends to represent the views of 45 nations can possibly be perfect. And so if I admit that from an American point of view that document is far from perfect, of course that is simple realism.

That there was this much agreement was, I think, a monumental accomplishment. There is ample reason, there is some means—perhaps cumbersome and slow in ac-

tion—of improving it. I don't know how much it is likely to be improved.

Remember the sharp differences of opinion that always come in our country when we have a piece of legislation. I submit that we ought to make a start toward some order in international trade and I don't believe that rejecting this charter is an intelligent start, because it is the judgment of people who know much more about it than I do, that we are not likely to see it possible to initiate another charter in the foreseeable future.

It is this, I think, for a long time—or nothing. I am not going to wave before an intelligent audience like this all of the possibilities of chaos that could happen. I don't know what will happen if that charter is refused. But I would not like to be a part of that historical record of Senators who in the early 1920s rejected the League of Nations, because I have a hope that perhaps the face of the world would have been different, if the United States had joined the League of Nations. Similarly, I have a hope that if we ratify that charter, as I think we will, and give it the best effort we can to make it work, that the world will be somewhat better as a result.

I have a different philosophy about international issues from those I have at home. One can disagree with national policies, fight them, try to change them. That is my duty as a citizen and my responsibility to my conscience. And yet in international affairs, I can be reconciled to the fact that other people in other parts of the world think differently from the way we do.

As long as they have arrived at what they have by democratic processes I could be quite willing to accept them for their sake—and let them accept them for themselves. I would hope that through example and persuasion time would bring about the desirable changes. I would be quite sure that force would not.

As this bill will come before our Congress in the near future, there are, I think only two choices: Ratify the charter and so continue to exercise this extraordinary position of leadership in which the United States stands over the world. It seems to me it is impossible to separate our economic and political leadership and that failure to ratify this charter will be looked at by the rest of the world against other backgrounds. I don't know what will happen to R. T. A. out of the Senate. I hope it goes back to the form in which it was up to a year ago, but remember the action of our Congress in so sharply amending the R. T. A. has left uncertainties in the minds of foreigners as to where we stand on international policies.

This charter will provide some permanent machinery which will attempt to bring some better order into the world—at least when ECA runs out, as I hope it does—and there will be something to carry along afterwards. It will serve notice to the world that we shall continue to press for freer and more democratic world trade and that we do it by the method of multilateral discussions instead of unilateral actions.

The other alternative obviously is to reject the charter and let the world assume what it will as to our future international economic policies.

And then if chaos does come, as it might, most of us are not likely to be alive to reason why.

Frank Securities Co.

Ira Frank has formed the Frank Securities Co. with offices at 75 West 45th Street, New York City to engage in a securities business.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

	Latest Week	Previous Week	Month Ago	Year Ago		Latest Month	Previous Month	Year Ago	
AMERICAN IRON AND STEEL INSTITUTE:					BUILDING PERMIT VALUATION—DUN & BRADSTREET, INC.—215 CITIES—Month of March:				
Indicated steel operations (percent of capacity).....	May 15	96.2	97.3	99.2	94.3	New England.....	\$16,422,754	\$8,129,918	\$13,656,673
Equivalent to—						Middle Atlantic.....	68,956,623	73,570,480	69,345,082
Steel ingots and castings (net tons).....	May 15	1,773,500	1,793,700	1,828,800	1,699,706	South Atlantic.....	26,727,236	23,598,851	25,099,432
AMERICAN PETROLEUM INSTITUTE:						East Central.....	61,213,937	35,260,200	58,199,353
Crude oil output—daily average (bbbls. of 42 gallons each).....	Apr. 30	4,922,050	4,915,950	5,072,400	5,413,450	South Central.....	44,758,058	39,980,726	64,291,452
Crude runs to stills—daily average (bbbls.).....	Apr. 30	15,273,000	5,188,000	5,269,000	\$5,570,000	West Central.....	20,739,274	10,925,903	17,895,915
Gasoline output (bbbls.).....	Apr. 30	17,969,000	17,595,000	17,635,000	\$16,681,000	Mountain.....	8,929,708	4,576,587	9,221,686
Kerosene output (bbbls.).....	Apr. 30	1,837,000	1,915,000	1,959,000	\$2,236,000	Pacific.....	78,042,514	48,152,886	80,910,187
Gas oil and distillate fuel oil output (bbbls.).....	Apr. 30	6,681,000	6,087,000	6,658,000	\$6,932,000	Total United States.....	\$325,790,104	\$244,195,551	\$338,610,780
Residual fuel oil output (bbbls.).....	Apr. 30	8,185,000	8,246,000	8,351,000	\$9,343,000	New York City.....	38,089,095	\$1,217,797	40,756,373
Stocks at refineries, at bulk terminals, in transit and in pipe lines—						Outside of New York City.....	287,701,009	192,977,754	297,854,407
Finished and unfinished gasoline (bbbls.) at.....	Apr. 30	124,787,000	124,749,000	127,769,000	\$111,632,000	BUSINESS INCORPORATIONS, NEW IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of March:			
Kerosene (bbbls.) at.....	Apr. 30	18,923,000	18,361,000	17,915,000	\$13,394,000		7,637	6,362	9,346
Gas oil and distillate fuel oil (bbbls.) at.....	Apr. 30	49,959,000	*49,775,000	48,556,000	\$35,224,000	CASH DIVIDENDS—PUBLICLY REPORTED BY U. S. CORPORATIONS—U. S. DEPARTMENT OF COMMERCE—Month of December (000's omitted):			
Residual fuel oil (bbbls.) at.....	Apr. 30	60,174,000	60,207,000	58,710,000	\$50,829,000		\$1,318,900	\$205,100	\$1,139,600
ASSOCIATION OF AMERICAN RAILROADS:					CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD—Month of April:				
Revenue freight loaded (number of cars).....	Apr. 30	785,444	769,336	725,623	891,115	Total U. S. construction.....	\$589,693,000	\$743,529,000	\$777,159,000
Revenue freight received from connections (number of cars).....	Apr. 30	624,740	618,763	583,210	725,505	Private construction.....	274,021,000	344,058,000	391,258,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD:						Public construction.....	315,672,000	399,471,000	385,891,000
Total U. S. construction.....	May 5	\$129,266,000	\$145,936,000	\$178,242,000	\$113,317,000	State and Municipal.....	266,003,000	236,154,000	271,005,000
Private construction.....	May 5	51,233,000	59,077,000	89,664,000	48,691,000	Federal.....	49,669,000	163,317,000	114,886,000
Public construction.....	May 5	78,033,000	86,859,000	88,578,000	64,626,000	CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of Mar. 31:			
State and municipal.....	May 5	56,865,000	71,465,000	71,977,000	41,353,000	Total consumer credit.....	\$15,379	\$15,336	\$13,539
Federal.....	May 5	21,168,000	15,394,000	16,601,000	23,273,000	Installment credit.....	8,447	8,340	6,555
COAL OUTPUT (U. S. BUREAU OF MINES):						Sale credit.....	4,371	4,306	2,992
Bituminous coal and lignite (tons).....	Apr. 30	11,530,000	11,355,000	9,660,000	14,007,000	Automobile.....	2,258	2,310	1,625
Pennsylvania anthracite (tons).....	Apr. 30	963,000	802,000	960,000	1,128,000	Other.....	2,113	1,996	1,367
Beehive coke (tons).....	Apr. 30	147,000	*147,200	114,200	91,300	Loan credit.....	4,076	4,034	3,563
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100:						Noninstallment credit.....	6,932	6,996	6,984
	Apr. 30	287	*266	301	300	Charge accounts.....	3,141	3,176	3,275
EDISON ELECTRIC INSTITUTE:						Single payment loans.....	2,821	2,864	2,783
Electric output (in 000 kwh.).....	May 7	5,283,592	5,303,841	5,359,961	5,087,264	Service credit.....	970	956	925
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.					COTTON GINNING (DEPT. OF COMMERCE):				
	May 5	193	204	*230	108	Running bales (exclusive of linters) crop of 1948.....	14,560,279	-----	11,551,738
IRON AGE COMPOSITE PRICES:					METAL PRICES (E. & M. J. QUOTATIONS)—Average for month of April:				
Finished steel (per lb.).....	May 3	3.74583c	3.74887c	3.75197c	3.25116c	Copper (per pound).....	21.450c	23.178c	21.200c
Pig iron—(per gross ton).....	May 3	\$46.13	\$46.57	\$46.74	\$40.11	Electrolytic, domestic refinery.....	21.692c	23.425c	21.530c
Scrap steel (per gross ton).....	May 3	\$23.08	\$22.92	\$26.17	\$40.42	Electrolytic, export refinery.....	21.692c	23.425c	21.530c
METAL PRICES (E. & M. J. QUOTATIONS):						Lead (per pound).....	15.154c	18.907c	17.212c
Electrolytic copper.....	May 4	18.200c	19.700c	22.950c	21.200c	Common, New York.....	14.958c	18.715c	17.012c
Domestic refinery at.....	May 4	18.425c	19.925c	23.425c	21.550c	Common, St. Louis.....	14.958c	18.715c	17.012c
Export refinery at.....	May 4	103.000c	103.000c	103.000c	94.000c	Silver and Sterling Exchange—			
Straits tin (New York) at.....	May 4	15.000c	16.000c	17.500c	17.500c	Silver, New York (per ounce).....	71.500c	71.500c	74.625c
Lead (New York) at.....	May 4	14.800c	14.800c	15.800c	17.300c	Silver, London (pence per ounce).....	43.500d	43.500d	45.000d
Lead (St. Louis) at.....	May 4	12.500c	13.000c	16.000c	12.000c	Sterling Exchange (Check).....	\$4.02655	\$4.02750	\$4.02614
Zinc (East St. Louis) at.....	May 4	12.500c	13.000c	16.000c	12.000c	Zinc (per pound)—East St. Louis.....	14.058c	17.056c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:						Tin (per pound).....	103.000c	103.000c	94.000c
U. S. Government Bonds.....	May 10	101.56	101.62	101.70	100.87	New York Straits.....	102.000c	102.000c	93.500c
Average corporate.....	May 10	113.12	113.12	113.12	112.56	New York, 99% min. (\$\$).....	102.000c	102.000c	93.500c
Aaa.....	May 10	119.00	118.80	119.00	117.60	Gold (per ounce U. S. price).....	\$35.000	\$35.000	\$35.000
Aa.....	May 10	117.40	117.20	117.20	115.63	Quicksilver (per flask of 76 pounds).....	\$84.654	\$87.296	\$75.462
A.....	May 10	112.19	112.19	112.37	112.00	Antimony (per pound) (E. & M. J.).....	41.730c	41.730c	36.120c
Baa.....	May 10	105.00	105.00	104.66	105.69	Antimony (per pound), bulk, Laredo.....	38.500c	38.500c	33.000c
Railroad Group.....	May 10	108.34	108.16	108.16	107.80	Antimony (per pound), in cases, Laredo.....	39.000c	39.000c	33.500c
Public Utilities Group.....	May 10	114.08	114.08	113.89	113.89	Antimony (per pound), Chinese, Spot.....	Nominal	Nominal	Nominal
Industrials Group.....	May 10	117.40	117.40	117.40	116.22	Platinum, refined (per ounce).....	\$72.000	\$75.111	\$92.923
MOODY'S BOND YIELD DAILY AVERAGES:						Cadmium (per pound).....	\$2.00000	\$2.00000	\$1.75090
U. S. Government Bonds.....	May 10	2.39	2.38	2.38	2.44	Cadmium (per pound).....	\$2.07500	\$2.05000	\$1.77500
Average corporate.....	May 10	3.00	3.00	3.00	3.03	Cadmium (per pound).....	\$2.15000	\$2.10000	\$1.80000
Aaa.....	May 10	2.70	2.71	2.70	2.77	Aluminum, 99% plus, ingot (per pound).....	17.000c	17.000c	15.000c
Aa.....	May 10	2.78	2.79	2.79	2.87	Magnesium, ingot (per pound).....	20.500c	20.500c	20.500c
A.....	May 10	3.05	3.05	3.04	3.06	Nickel.....	40.000c	40.000c	Not Avail.
Baa.....	May 10	3.45	3.45	3.47	3.41	MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of April:			
Railroad Group.....	May 10	3.26	3.27	3.27	3.29	Industrials (125).....	7.02	6.88	5.50
Public Utilities Group.....	May 10	2.95	2.95	2.96	2.96	Railroads (25).....	8.63	8.31	5.55
Industrials Group.....	May 10	2.78	2.78	2.78	2.84	Utilities (25).....	6.11	6.06	5.87
MOODY'S COMMODITY INDEX						Banks (15).....	4.71	4.66	4.50
	May 10	343.6	344.3	354.7	419.8	Insurance (10).....	3.34	3.27	3.29
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:						Average yield (200).....	6.81	6.66	5.46
Foods.....	May 7	213.7	215.2	219.1	236.4	NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments, month of February:			
Fats and oils.....	May 7	148.4	149.1	144.0	290.7	Aluminum (thousands of pounds).....	27,228	29,142	37,962
Farm products.....	May 7	228.5	225.0	236.8	254.9	Copper (thousands of pounds).....	68,776	76,348	87,169
Cotton.....	May 7	313.7	310.1	311.0	349.4	Magnesium (thousands of pounds).....	813	822	655
Grains.....	May 7	203.4	206.2	206.6	266.6	Zinc (thousands of pounds).....	28,238	33,205	37,682
Livestock.....	May 7	221.8	218.2	235.0	240.4	Lead die (thousands of pounds).....	705	1,019	1,079
Fuels.....	May 7	223.1	*223.1	226.3	228.6	PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of February (in billions):			
Miscellaneous commodities.....	May 7	164.2	165.2	166.6	175.2	Total personal income.....	\$217.0	\$219.5	\$206.4
Textiles.....	May 7	187.9	188.0	189.0	213.5	Wage and salary receipts, total.....	135.1	136.3	126.8
Metals.....	May 7	176.0	179.7	184.6	163.5	Total employer disbursements.....	137.3	138.6	128.8
Building materials.....	May 7	213.0	213.5	215.2	232.2	Commodity producing industries.....	61.4	62.1	57.8
Chemicals and drugs.....	May 7	137.6	137.6	137.9	155.6	Distributive industries.....	39.5	39.9	37.8
Fertilizer materials.....	May 7	142.9	142.9	142.8	136.3	Service industries.....	16.5	16.6	15.6
Fertilizers.....	May 7	150.5	150.5	150.5	143.7	Government.....	19.9	20.0	17.6
Farm machinery.....	May 7	153.1	153.1	155.7	138.9	Less employee contributions for social insurance.....	2.2	2.3	2.0
All groups combined.....	May 7	203.3	203.4	208.5	219.9	Other labor income.....	2.1	2.1	2.0
NATIONAL PAPERBOARD ASSOCIATION:									

Prospects for Gradual Business Decline

(Continued from first page)

1948, however, good crops at home and abroad improved the agricultural outlook and the critical shortages of many industrial and manufactured products were eliminated. Furthermore, the steady rise in the money supply, which had persisted for so many years, had already come to a halt, and the price level became substantially adjusted to the new volume of money.

Consequently, in the latter part of 1948 a material change developed in the general economic and price situation. Commodity prices leveled off, and some of them dropped sharply. Deliveries were speeded up, the rise in consumer and business spending began to taper off, inventories rose to new peaks, and a more general balance was attained between demand and supply at the price levels then prevailing. New orders for a wide variety of products began to fall off and a feeling of uncertainty began to spread in the business community.

Despite the change toward the close of last year, the early months of 1949 brought no significant deterioration of business in the aggregate. Personal income was close to its all-time peak. Retail sales on the whole compare favorably with the comparable months of last year. Unemployment has risen, but the 3¼ million figure is still low for an economy of our size. Although manufacturing employment is down slightly, employment as a whole has been running ahead of last year.

Other measures, however, show a more sizable drop in the rate of business activity. Miscellaneous and less than carload freight loadings have been averaging 10% to 15% below a year ago, and the turnover of demand deposits, on a seasonally adjusted basis, shows a declining trend. Business loans have been dropping steadily from their peak in December, 1948, and are now about where they were a year ago. The Federal Reserve index of industrial production, currently estimated at 180, is 15 points below the postwar peak attained in October and November, 1948. After dropping by about 2 points a month earlier in the year, the rate of decline accelerated in March and April.

Further Decline in Prospect

The belief that we shall experience a further and more substantial downturn in business activity is based upon a number of considerations: (1) the economy is faced with additional price adjustments which are not likely to be achieved without perceptible effects on production and employment; (2) consumer spending is not likely to turn upward until additional price adjustments have been achieved; (3) the trend in most types of business spending, such as construction, equipment, and inventories is toward lower levels; (4) unless budget forecasts are changed significantly, government spending is not likely to increase sufficiently to counteract the downward trends in other sectors of the economy. At the same time, there are supporting factors in the situation that are likely to cushion the decline and make unlikely a drop of crisis proportions. Each of these points deserves a brief discussion.

The Price Situation

While price adjustments have been in progress for more than a year, most of the significant declines so far have been limited to some industrial raw materials, and to farm and food products. Price declines have been fairly small in most manufactured goods except for some textiles and textile products. For many products, such as apparel, however, better quality has been built in, and prices are not necessarily a good

measure of change in value in recent months.

There has been substantial diversity in the downward movement of prices. In general, farm and food products reached their peaks earlier and declined rather sharply, while manufactured products reached their peak later and so far have shown a more modest drop. This pattern of price correction is not unexpected, nor is it unlike the pattern followed in other periods of price adjustment, when manufactured products lagged behind other commodities.

Signs of price weakness abound. Prices of farm products are likely to remain under pressure, despite government support and continued substantial exports, in view of the large carryovers of agricultural products and favorable crop prospects. In nonferrous metals, where continued tight supply conditions were anticipated as recently as the end of last year, substantial price corrections have occurred. Even the steel situation, which as late as last January was regarded by some as so critically short as to justify government spending for the expansion of facilities, has rapidly reversed itself: the steel shortage is largely a matter of history, premiums have been reduced, grey markets have vanished, and price concessions are beginning to appear. Recent reductions in automobile prices are likely to be followed later this year by much more substantial cuts, and prices of used cars have already dropped sharply.

In practically every sector of the economy, supplies at present prices are abundant. Consumer resistance to high prices is evident and it is likely that more substantial price reductions will be required to stimulate demand. A similar situation prevails in private residential building and in business outlays for plant and equipment. Further price declines are in prospect and price weakness is likely to spread to more and more manufactured goods. More importantly, however, the outlook for prices will have a significant bearing on the volume and character of spending by consumers and business.

Consumer Spending

Consumers are becoming more cautious and careful in their buying habits. A contributing factor to the leveling off in business toward the close of 1948 was the failure of retail sales to keep pace with the rising levels of personal income. Ever since 1947, consumers have been spending a declining share of their income. Toward the end of last year, however, this trend became more pronounced. Layoffs and part-time work became more prevalent, unemployment claims rose sharply, and personal savings increased perceptibly. At the same time, the readier availability of goods resulted in a return to more normal seasonal buying habits for some of the larger items of consumer durable goods. More stringent restrictions on consumer credit may also have been a factor. As a result, many retail stores that had forged steadily ahead in the postwar years encountered a less satisfactory trend of sales.

This situation does not indicate a general shortage of consumer buying power but rather a spirit of caution and reserve. That there is no general shortage of buying power is evidenced by the data on personal income, and by the experience of department stores, where sales have picked up markedly whenever substantial price concessions have been made on good quality merchandise. However, where price reductions have been only moderate, the sales response frequently has been unsatisfactory. Many retailers have stated that small price concessions frequently cause potential

buyers to defer their purchases in the expectation of still lower prices.

There is little prospect that consumers will increase their spending significantly in the near future. Consumer resistance has been evident for some time in luxury goods, entertainment, and other items. But now this trend has broadened to take in larger home appliances, furniture, houses, and even some models of automobiles. Unemployment and shorter work weeks are likely to spread and to act as further restraints on consumer spending, and personal income is likely to continue to decline. A change in point of view among consumers is not likely to occur so long as price reductions are the news of the day.

The Inventory Situation

American business has completed one of the greatest inventory building booms in history: business inventories are currently estimated at about \$55 billion, compared with \$20 billion in 1939. It is clear that inventories of some specific goods or commodities are more than ample, but it is not so easy to appraise the inventory situation in the aggregate. Those who have been relatively complacent about the high levels of inventories point out that most businessmen have been following rather cautious inventory policies, that a large part of the increase reflects higher prices, and that the ratio of inventories to sales is not out of line with prewar experience.

However, it is difficult to measure normal inventory requirements at these record levels of business, in view of the secular decline in inventory requirements relative to sales. Also, unbalanced inventory conditions are difficult to detect from aggregate figures. Finally, inventories seldom appear excessive so long as sales are rising. But at peak levels of production, as many concerns have discovered in recent months, even a slight decrease in sales may turn an inventory situation around in a short time.

While inventory accumulation in recent years has taken only a small share of our production, a reversal of the trend from accumulation to liquidation may have substantial impact on the economy. Involuntary accumulation may cause inventories to rise further before they decline, but the next major move is likely to be toward lower stocks of goods. Certainly this is likely to be the case until the price outlook changes. The steady and large reduction in business loans in recent months probably reflects in considerable measure the adoption of more conservative inventory policies by business. All this leads to the conclusion that the stimulating effect of a rise in inventories of \$8 billion in book values for 1947 and \$6 billion for 1948 will be absent in 1949.

Construction

Any estimate of the volume of building and construction so early in the season is admittedly hazardous. The outlook for private residential building deteriorated noticeably last year, especially in the latter half of the year, when real difficulty began to be experienced in marketing newly built houses. New starts declined for nine successive months from May, 1948, through February, 1949, and for the past eight months have been running behind the comparable month of the preceding year. During the past half year, new contracts for private residential building have averaged 18% below the comparable months of the preceding year. It is possible that the situation will improve later in the year if builders shift to the construction of lower cost homes. One recalls that in 1947, private residential building got off to a

slow start and made a strong finish, but a repetition of this pattern is not likely in 1949. On balance, a dollar level of outlays 15% or more under 1948 would not be unexpected.

Private nonresidential contracts have been holding up better than the residential contracts in recent months. Nevertheless, the dollar volume of total private building and construction in 1949 may be 10 to 15% below last year. Even if public construction should increase by \$1 billion, total construction may be \$0.5 billion to \$1.0 billion less than in 1948.

Plant and Equipment Spending

In the case of spending on business plant and equipment, it also appears that the peak was reached in 1948 and that the trend is downward. A year ago, business prospects were generally favorable, the outlook was for stable or even higher prices, corporate profits were rising, and tax increases appeared remote.

At present, the business outlook is clouded and the price situation is uncertain. Business costs are high and inflexible and break-even points have risen substantially. Hence, corporate profits appear fairly vulnerable to even modest reductions in prices and in business activity. Historically, there is a high correlation between corporate profits and plant and equipment expenditures. Furthermore, business managements that have postponed projects as the result of high costs may well decide to hold off in the hope of yet lower construction costs.

The latest SEC and Commerce Department survey of anticipated outlays on plant and equipment confirms the general impressions received from the financial press and business managements, namely, that in most of the principal categories of business, plant and equipment expenditures are over the peak. The major exceptions are the electric and gas companies.

This survey indicates a decline in outlays by about 5% in 1949, compared with last year. Expenditures during the first half of 1949 are estimated at 5% above the corresponding period of last year, but are probably below the rate of the latter half of 1948 on a seasonally adjusted basis. For the second half of this year, a decline of about 14% under the rate in the second half of last year is indicated.

Some question may be raised as to the reliability of this forecast for the second half of the year. In a similar survey made a year ago, the estimate for the latter half of 1948 later proved significantly below the actual result, and if this experience should repeat itself, expenditures in 1949 would equal last year's record level. However, last year the trend in plant and equipment spending was still up while at present it is down. There is some reason for believing that surveys of the type underlying these estimates understate anticipated expenditures when they are rising and overstate them when the trend is reversed.

On balance, after talking all considerations into account, it appears reasonable to estimate expenditures on plant and equipment for 1949 as a whole at about 5% to 10% below last year, but with the second half of the year as much as 15% to 20% under the results of the second half of 1948.

Government Spending

Government expenditures for goods and services have been in a rising trend since early 1947; the increase was particularly rapid in 1948. Expenditures by State and local governments are unquestionably due for further sharp increases, and the same may be true of Federal spending in the long run. However, a large part of the increase projected in the rate of Federal spending over the near term has already occurred. In

fact, unless the dividend on National Service Life Insurance is paid, the rate of spending by the Federal Government is not likely to be significantly greater in the last quarter of 1949 than it was in the last quarter of 1948. Based on these expectations, the rate of government spending would not increase sufficiently to offset the declines anticipated in other types of outlays.

Another measure of the impact of the Federal budget on the economy is the net cash income or outgo of the Treasury. In the fiscal year ended last June, the net cash income was \$9 billion. Since then, spending has risen and tax receipts have declined. Consequently, the net cash income in the current fiscal year is likely to be only about \$2 billion. Given further declines in prices, employment, and business, the outlook is for a net cash outgo of possibly as much as 4 billion or more in the fiscal year ending June, 1950. However, at least during the balance of calendar year 1949, the collection of taxes based on the high incomes of 1948 will help maintain cash receipts. Hence, the net cash outgo is not likely to be very significant until after the first quarter of calendar year 1950, and the effects on the economy, are not likely to make themselves felt until well in 1950.

These estimates anticipate that expenditures for the support of agricultural commodities will be significantly higher than the estimates in the Budget Message, and that withdrawals by States for unemployment payments are likely to increase. It is assumed, however, that no additional large spending programs will be implemented and that Congress will take no action on taxes in the current session. The prospects for government spending during the balance of this year are not likely to be changed materially by new legislation, unless the international situation should bring yet further complications. Such a contingency, with an accompanying large increase in armaments, would substantially alter both budget and business prospects.

The Outlook

Indications of an impending decline in the rate of business activity have appeared on several occasions in this long postwar boom. In no case, however, has the adjustment process affected a sufficiently large segment of the economy at one time to bring about a downturn in the aggregate volume of business. In the months ahead, we are not likely to be so fortunate. The change in the price outlook, the satisfaction of the most urgent accumulated demands, and increasing supplies of goods indicate the prospect of readjustments. Private spending has passed its peak and government spending is not likely to rise appreciably in the near future.

Some reliance is being placed on the coming of Spring to provide a cushion against a significant decline in business in the immediate future. It is likely that the upturn in construction activities and outdoor work, and the normal seasonal rise in purchases of larger appliances, automobiles, and farm equipment will provide some support to the economy during the next few months. However, there is evidence that the seasonal rise is not, as yet, measuring up to expectations.

In any event, a seasonal upturn in buying will not remove the basic problem with which the economy is confronted, namely, to adjust production and prices of a wide variety of goods to levels that can be sustained, now that much of the accumulated demand has been satisfied. Once the current seasonal output has spent its force, some of the heavy industries that have been producing at capacity may have to contract operations. At that time, business

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Prospects for Gradual Business Decline

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conditions may take a further and perhaps more serious downturn. This diagnosis leads to some further questions. How substantial is the drop likely to be? How long may one reasonably expect it to last? And, finally, what expectations should be attached to government policies designed to reduce the severity of the business downturn?

Extent of the Decline

Regarding the probable magnitude of the decline, it is worth recalling, by way of rough benchmarks, that in the depressions of 1920-21 and 1937-38, the Federal Reserve index of industrial production declined by about one-third. In the moderate depression of 1923-24, industrial production declined by a little more than 15%. At the time, this was regarded as a fairly modest cyclical downturn.

The current outlook is for a more or less gradual downward movement in activity rather than for a sharp reduction of crisis or collapse proportions. Credit has not been widely used for speculative purposes. The stock market is largely on a cash basis and most stock prices have not shared in the postwar inflation. The banking system is in good condition, with large holdings of government obligations widely distributed. It would be expecting too much to assume that no banker will become jittery and put borrowers under pressure, but the banking situation does not portend a drastic deflationary policy, and money market and reserve positions will be kept easy. A large part of bank loans consists of term, real estate, and consumer loans with stated maturities, and cannot be called on demand.

The declines in agricultural prices and incomes will be mitigated by government price support operations and by the prospect that exports of agricultural products will continue large for this year at least. Unemployment and other welfare plans, while they cannot keep the economy at high-pressure operations, will nevertheless provide some cushion against a severe decline in buying power. Due to increased public construction, the aggregate volume of construction during the year will still be high. Although government spending is not likely to rise appreciably during the balance of this year, the large Treasury surpluses are behind us, and fiscal operations will no longer tend to contract the money supply.

Taking all these factors into account, one may conclude that a decline in the rate of industrial production by as much as 15% to 20% from peak postwar levels would not be an unreasonable expectation. Measured in terms of the Federal Reserve index this would mean a low point in the neighborhood of 155 to 165, which would still be 55% to 65% above the 1935-39 average.

Duration of the Decline

Regarding the duration of the prospective downturn in business, there are two major possibilities. The optimistic view is that the timing of business adjustments will not be too different from those which prevailed in the twenties. On this basis, price and production corrections of the character now anticipated are likely to require about a year. Provided corrective forces are allowed to work themselves out without too much molestation or hindrance, the low point in business activity might be reached sometime in the first half of 1950, and might be followed by a recovery of considerable proportions.

This point of view assumes that once prices have been re-

duced, consumer spending, private construction, and plant and equipment outlays will again move upward. Such a view is not unreasonable. The demand for automobiles, television sets, and larger household appliances is far from satiated. Our housing is in need of substantial improvement. Expenditures on plant and equipment, even at the peak levels of 1948, were not excessive, if measured against gross national product, or if adjusted for population and price changes, or if related to consumer expenditures. Our industrial plant could still use substantial improvement, and high wage costs provide a continuing incentive for the installation of modern machinery.

The pessimistic view on the duration of the downturn in business is that instead of a short period of price and production adjustment followed by a recovery, we are likely to experience a protracted movement in the direction of lower business activity. This point of view lays emphasis on the practical difficulties involved in achieving a sustained high level of private spending on heavy goods. Cost and price reductions may not be sufficient to maintain a high level of private housing and construction. Debt money for capital expansion is available on fairly liberal terms to first name companies, but financing conditions are not favorable for those of lesser stature. Yet it is increasingly difficult for a small company to grow. Corporate tax rates are three times as high as they were in the decade of business expansion in the twenties, and the prospect is that they may go even higher. Progressive income taxes and estate and gift taxes have made difficult the accumulation of private capital, and together with restrictive supervision of the securities markets, tend to discourage investments in equity capital. Regulation of business by government has been expanded both in scope and in effectiveness. The economic problem of achieving recovery thus becomes complicated by the introduction of political considerations of various kinds.

In sum, unless adequate incentives can be provided for the continuing investment of private capital, it is by no means assured that a drop in business activity will be short and relatively painless, to be followed by prompt and sustained recovery.

The Role of Government Policy

A final question is whether the great imponderable of government policy may defeat all attempts at economic prognostication. The significance of government action in the economic sphere should not be minimized; the very magnitude of the budget prevents such an oversight. Nevertheless, it would be unwise to overestimate the effectiveness, in the short run, of government intervention designed to prevent business downturn. Delays are encountered in analyzing the economic outlook; there is the real possibility that the forecasts of the character or timing of economic movements will be conflicting or in error. In addition, time is required to formulate a program and to obtain necessary Congressional appropriations. Even when a course of action is finally agreed upon, further problems and delays in execution are inevitable.

All this suggests that unless government is committed to continuous inflation, it cannot effectively foresee and cope with changes in a dynamic economy. In fact, there is real danger that the lags in government action may accentuate the booms, with all their attendant problems, without being able to counteract fully and effectively a downturn in busi-

ness. Thus, the spending plans conceived to deal with a recession or depression may become effective about the time that business activity is rising.

In addition to these difficulties, there are more fundamental problems. May not government intervention actually prevent some of the adjustments which are necessary and desirable if the private economy is to work satisfactorily? At what point in the adjustment process should government step in, and what form of intervention should be used? Not all government measures, unfortunately, are designed to encourage private capital outlays. On the contrary, government policy, especially in periods of less favorable business, frequently contains inconsistencies. In the thirties, for example, the stimulating effects of government expenditures were largely dissipated by other policies, politically conceived, which adversely affected business capital outlays. Government economists rightly stress the need for continuing high levels of plant and equipment spending by business. Yet, at the same time, they frequently recommend higher taxation of corporate profits which are the basis for financing these necessary capital outlays.

It would be highly desirable if economists would devote more thought to the practical problems of establishing an environment conducive to a sustained high level of private capital investment. Greater familiarity with the point of view and the day-to-day problems of business management would be very helpful.

Validity of Forecasts

In conclusion, some comment appears appropriate regarding the reliability to be attached to forecasts of this nature. The abundance of statistical information has given us somewhat greater insight into the condition of the economy. Against this, however, stands the fact that businessmen and consumers are motivated in large part by psychological forces which cannot be predicted with confidence. Furthermore, the advantages gained from the large mass of statistics are perhaps more than offset by the growing importance of political and other influences which may affect the economy in decisive fashion but which themselves escape measurement.

Consequently, prognostications even as general as those just attempted may prove to be wide of the mark. An international crisis would require substantial revisions in many of these judgments and points of view. If Congress should adopt an anti-business program, a more serious and protracted decline in private construction and equipment programs might well develop. Badly conceived or poorly executed government policies could prolong the adjustment process and stifle the normal recuperative powers in the economy. Unwillingness of business management to reduce prices or of labor to raise productivity would have similar effects. Perhaps our greatest danger is that in our preoccupation with achieving stability, security, and the laudable objectives of the welfare state, we create an environment in which the economy as presently organized may not be able to provide the rising production which underlies an advancing standard of life.

Lewis Company Opens

Samuel P. Lewis will engage in the securities business from offices at 315 West 106th Street, New York City, under the firm name of Lewis Company.

International Financial Problems Of Our Economy

(Continued from page 13)

a consequence, production of five important goods, namely, foodstuffs, textile products, ships, motor cars, and coal in these European countries has increased so much that our exports of these goods declined by a total of more than \$1.6 billion in 1948. At the same time our imports of machinery, motor cars, and textile products rose by \$300 million. Moreover, the rehabilitation of the merchant marine of seafaring nations brought about a decline in our net revenue from transportation from \$1 billion in 1947 to less than \$500 million in 1948. Altogether, we find that at least \$2.4 billion, or almost one-half of the total decline in our export surplus, can be traced directly to the success of our assistance to Western Europe.

Increased production in Canada, Latin America and the Middle East, together with the large volume of output in the United States, was responsible for the sizable rise in our imports of raw materials—like oil, metal ores and metals, textile fibers, lumber and wood pulp, meat, coffee, cocoa, tea and other semi-luxury foodstuffs. The increase in these imports amounted to about \$1 billion, or one-fifth of the decline in our export surplus. The improvement in the international economic situation is, therefore, responsible for about 70% of the drop in our 1948 export surplus.

The remaining 30% of the decline in the export surplus, however, may be ascribed mainly to effects of the war that have not yet been completely overcome. The continuing poverty of a large part of the world is reflected in the so-called dollar shortage, namely, the progressive exhaustion of dollar reserves of most foreign countries. For instance, this shortage holds down our exports of industrial and electrical machinery although virtually all countries are still badly in need of further modernization and expansion of their capital equipment. In fact, the entire output of such machinery in all industrial nations could not satisfy the over-all demand if the purchasing power of foreign countries were equal to their needs.

In particular, the decline of more than \$700 million in our exports to Latin America probably was due to the depletion of their dollar resources during the early postwar years rather than to a reduction in their need for our products. Countries like Venezuela which still had ample dollar reserves have actually increased their purchases in this country. A decline of \$400 million in our exports to the sterling area outside of Europe, while in part attributable to the recovery of the United Kingdom, was in part due to the "dollar shortage."

Another part of the decrease in our exports can be attributed to the unsettled political situation in the countries bordering on the Soviet Union and in the Far East. The unwillingness to remain dependent upon the West, coupled with our prohibition of exports of strategic materials to the area dominated by the Soviet Union, resulted in a drop in our exports to Eastern Europe of about \$300 million. Continued strife in the Far East reduced our exports to that area by about \$200 million.

These developments account in the main for the sharp decline in 1948 in our export surplus. They indicate substantial progress toward more stable economic conditions. In the financing of the export surplus, however, we continue to find evidence of the decisive role of the aid given by

the United States. Not less than \$5.1 billion, only about 20% less than in 1947, was covered by Government loans and grants and by advances by the International Monetary Fund and the International Bank for Reconstruction and Development. An additional \$600 million, or about the same amount as in 1947, was financed by private remittances, occasioned mainly by the continuing sorry plight of the European relatives and friends of our citizens. Private capital invested abroad totaled \$900 million (net), a small increase over 1947. Sales of gold to the United States amounted to \$1.5 a billion, or almost 50% less than in 1947. This decline probably reflects the heavy liquidation of foreign gold holdings prior to 1948. Sales of gold in 1948 were largely offset by an increase in foreign holdings of short-term assets in this country.

Prospective Changes in Export Surplus

From the point of view of our international relations, the decline in our export surplus is welcome, especially insofar as it indicates progress of rehabilitation abroad. In 1948, when inflationary pressures still prevailed in this country, it was also welcome from the point of view of our domestic financial policy. An export surplus is financed—apart from private relief contributions—either out of U. S. Government funds, private extension of credit, or an inflow of gold. All three methods have inflationary effects. The largest international expenditure—Government grants and loans—made it more difficult to achieve a budget surplus of decisive anti-inflationary proportions. Credits extended to finance purchases by foreigners contributed to further expansion in the volume of our money. Gold inflow provided additional bank reserves which could become the basis of a multiple expansion of credit.

A further decline in our export surplus however, might have less desirable consequences if downward pressures developed in the domestic economy. When domestic demand contracts, a strong foreign demand is beneficial because it provides a market for goods.

It has been argued, by opponents of the joint program of European reconstruction, that our aid was intended less to help Western Europe than to benefit our own economy by opening otherwise unavailable markets for our goods and services. This contention does less than justice both to our motivation and to the actual situation in 1948. In that year domestic demand could have absorbed virtually all our exported products, and the export surplus was a drain upon our economy. Moreover, the possibility that we might benefit in the future from increased sales abroad would not mean that foreign countries would be harmed by them: our aid—unless grossly mismanaged—would in any case continue to be a positive contribution to foreign economies. In fact, the needs of foreign countries for additional goods and services are so immense that they could not be satisfied for a long time to come by the output of their rehabilitated productive systems and all our aid combined.

Our assistance to foreign countries could harm their economies only if we insisted on exporting goods that would compete with their industries and if these nations were unable to shift their production to other, more advantageous activities. Actually, our aid consists overwhelmingly of

foodstuffs, raw materials, and capital equipment and the most biased protectionist could not truthfully maintain that such shipments diminished the opportunities for employment in the recipient countries. On the contrary, they make it possible for these countries to increase employment, production, and consumption at the same time.

In any case, our export surplus probably will not decline as rapidly from 1948 to 1949 as it did between 1947 and 1948. We may hope that imports will continue to increase, both because of large demand at home and because of increased supply abroad. We also can expect exports of a number of commodities to decline further. Our foreign responsibilities, however, will make it necessary for us for some time to come to ship a certain amount of "unrequited" exports—that is, exports not paid for by imports.

The first of these responsibilities concerns the areas occupied by our armed forces. In 1948, contrary to the general trend our exports to Germany, Austria, and Korea were considerably larger than in 1947. While it is hoped that no further rise in aid will become necessary, it would be unrealistic to count upon too rapid a decline in the needs of these countries.

The second responsibility relates to countries threatened by foreign aggression. In 1948, that responsibility resulted in increased exports to Greece and Turkey. Under the North Atlantic Pact, further increases may be necessary to enable the European members to fulfill their treaty obligations.

A third responsibility exists in respect to countries which have entered into long-term plans for reconstruction and development in connection with the European Reconstruction Program. It would be wasteful, as well as contrary to our economic and political interests, to leave that work unfinished by reducing our assistance below the amount required by the participating nations at their current state of recovery. We have just started to deliver capital goods rather than foodstuffs, and a decline in domestic demand for capital goods may make possible an increase in deliveries without deprivation of our own industry.

A fourth responsibility may arise in connection with our new program of technical assistance to undeveloped areas. While this project does not contemplate substantial shipments immediately, it probably will lead eventually to a greater demand for capital goods. Such a development would be most beneficial to our own economy if it were timed so that increased demand for undeveloped areas would coincide with declining needs of the Western European countries.

These considerations do not imply, however, that we should artificially create an export surplus not warranted by the needs of the recipient nations in order to provide markets for our goods. Even if drastic anti-deflationary actions should become necessary here, the government would have ample opportunity to take domestic measures that would expand incomes and expenditures among the low-income groups. Moreover, the sums involved in any prospective export surplus probably would not be large enough to be decisive in anti-deflationary policy.

Outlook For Foreign Trade

A healthy international economic system requires equilibrium in our balance of international payments, apart from those commodities sent to foreign nations

as relief. Equilibrium does not mean equality of exports and imports but rather equality of our export surplus—apart from the relief shipments just mentioned—and the amount of our voluntary foreign investment.

Such an equilibrium, however, would not restore satisfactory international relations unless it accompanied a high and expanding level of world trade. Equilibrium as such could be achieved any day by cutting out government grants and loans and permitting trade to decline to the low levels of the depression years. However, progress in rehabilitation of war-devastated areas and in development of backward areas would be halted, our exports would drop violently, and our imports from these areas could not increase further. This would mean that foreign countries as well as the United States would have to forego the benefits of buying and selling goods in the most advantageous markets.

At a high level of world trade, however, equilibrium would be reached not so much by reducing exports as by increasing imports. Such a development would benefit all parties by making it possible for them to enjoy fully the fruits of the international division of labor.

Consumers generally welcome the added quantities of goods and services that become available for domestic consumption through an increase in imports. Producers, however, frequently favor additional imports only if they are confined to raw materials or other producers' goods or to such consumers' goods as do not compete with domestic products. It so happens that the greater part of our imports is of that type. In 1948 our largest import items were industrial materials like oil, rubber, wool, wood pulp, copper and tin, and foodstuffs like coffee, cane sugar, and cocoa; these nine commodities alone accounted for about 40% of our entire trade. If we maintain our high level of economic activity, we can probably absorb ever-increasing quantities of the commodities that producers favor, including high-quality goods which could be manufactured at home only at prohibitive costs because of the large amount of highly specialized labor necessary for their production.

It is unlikely, however, that we can maintain a high level of trade by importing only those commodities and services which do not compete with domestic products. In fact, progress in synthetic production has reduced our demand for some raw materials, especially silk and rubber, which before the war formed a large part of our imports. We must face the fact that our imports will also have to include some consumers' goods which could be produced domestically but which are produced at greater advantage abroad.

An increase in such imports will, of course, be resisted by competing domestic producers. The resistance will be more stubborn as the comparative advantage of the foreign exporter increases. In some cases, an increase in such imports might actually lead to hardship. Even in those cases, however, the effect upon individual industries would not be more drastic and the overall effects on the economies abroad and at home less severe than the damage that would result from failure to maximize foreign trade. An example will illustrate the point.

If we were to reach equilibrium by reducing exports to the 1948 level of imports, our export industries would have to curtail sales by about \$6 billion; if, however, we were to reach equilibrium by raising imports to the 1948 level

of exports, domestic industries would have to curtail sales by the same amount. In both cases, it is assumed for simplicity's sake, that other domestic sales and purchases would remain unchanged. If we used the method of cutting exports, it would hit those producers that have proved to be more efficient than their foreign competitors. However, the method of cutting sales of domestic goods competing with imports from abroad would curb those enterprises that are less efficient than foreign producers. From the point of view both of the world economy and of the domestic consumer, the second solution would be far preferable to the first.

When Equilibrium Will Be Reached

If we may hazard a forecast on the basis of past experience, we may expect equilibrium to be reached after the end of the European Recovery Program period, at a point somewhat in between the two extremes posed by our illustration. Unless our economy should suffer serious recession, a level of imports (including services) of 10 to 20% above 1948 would seem feasible. Since the bulk of these imports would be in the fields of crude materials, producers' goods, and other commodities and services which do not compete with domestic products, such an increase would not involve appreciable hardship for domestic producers. At the same time, the recovery of the rest of the world would make an U. S. export level of 10 to 20% below 1948 seem attainable. The resulting export surplus of about \$2 billion, or almost 70% below 1948, probably could be covered by private investments alone, or even more easily by investments plus moderate relief contributions. Such a level of foreign trade would represent about the same proportion of our gross national product as in 1947, but a somewhat lower ratio than prevailed either before the first world war or during the interwar period.

The hope for achieving such a balance is based primarily upon the expectation that we shall not repeat the mistake of the last interwar period, when we believed we could expand exports and at the same time restrict imports. Past experience—that in the long run foreigners can buy from us only as much as we permit them to sell to us—is already repeating itself since our exports everywhere are restricted by the so-called dollar scarcity.

Fortunately, the main trading nations of the world are ready to join with us in an international program which would help us expand foreign trade to maximum volume. The regional commissions set up by the United Nations for Europe, Latin America, the Near East, and the Far East, as well as the Pan-American Union and the Organization for European Economic Organization, are all working toward this end. In addition, the International Bank for Reconstruction and Development has started to grant credits to undeveloped nations, which will enable them to expand their production and to participate more actively in international commerce. The International Monetary Fund is tackling the problem of adjusting unrealistic exchange rates so that the main trading nations can gradually lift some of their most irksome exchange restrictions. Finally, the proposed International Trade Organization should become an important forum in which nations operating at different stages of economic maturity and struggling with varying problems of balance-of-payments disequilibrium can reconcile their divergent interests and substitute

No Cause for Gloom Regarding The Outlook for Business

(Continued from first page)

rather severe but over the whole country not alarming.

Ever since this change began to happen we have been engulfed in a flood of confusing comment. Some people are very pessimistic. A few try wrongly to maintain that nothing significant is happening to us. A few even think that inflation will soon start up again, although that view is not as popular as it was four or five months ago.

What happens to business in the months ahead will be influenced a good deal by the way each of us looks at the situation. My own opinion is that as businessmen we have run into a real change in conditions, but that there is little valid reason to complain about it. Looked at one way, it may seem to be for the worse, but in other ways it is surely for the better. During the boom many things were wrong. Prices were out of sight, and everyone whose income lagged suffered from the inflation. This included everyone who lives largely on fixed income, or on interest or rents or dividends, and it included everyone whose salary did not keep up with the cost of living. This takes in a lot of white collar people. These people were the victims of inflation. It is not only just that they should get some relief; it is also necessary for the national welfare, for they have been priced out of the markets and their buying power can be restored only by getting prices down.

Businessmen also had their troubles during the boom. Manufacturers have been troubled by scarcities of materials, by poor quality, by gray market prices, by inefficient work in their factories. They have taken great inventory risks, and although profits looked large they were the kind which might disappear overnight, and which in any case were swallowed up by higher prices for materials and for bricks and mortar and machinery. When we feel like complaining we might stop to think that conditions are turning better in these respects. The opportunity is here to get the productive machine tightened up, to do business in a more orderly way, and to get a better day's work for today's high pay.

Inflation always brings illusions, but it is no real benefit to live under illusions. This country had an abnormal volume of business for a time, but realistic people knew it was abnormal be-

cause demand was swollen to fill accumulated scarcities and empty pipelines. Now that is over, and the job of business is to accommodate itself to a lower volume and price level. The general welfare is not going to be hurt, but helped, by a return of competition which will make people work harder. For the result will be that goods will be turned out better and cheaper, and that is the way this country has grown.

If employers and workers keep this change in the right perspective and buckle down to the new problems, which after all are only the old problems reappearing I have confidence in the outlook. There are fortunately some good reasons for believing that the slide may not go too far, and that stabilization may be achieved on a fairly high rather than a depressingly low level of production and employment. Among these reasons are the caution that has ruled in banking and finance, in the speculative security markets, and generally in inventory policy. People have huge savings, including \$52 billions of redeemable U. S. Savings Bonds, which support their current buying power. Their financial position is strong. Farmers, for example, have the lowest ratios of debt to assets in their history. There is no strain in the money position, nothing like the 6 and 7% rediscount rates of 1920. There is also an unshrinking segment of demand represented by government expenditures for construction, defense, ECA, and other purposes. Finally, income payments are supported by unemployment compensation and farm price supports.

While we cannot and should not expect to keep on doing the volume of 1947 and 1948, there are thus many reasons for thinking that business will not go down too far, and that prices can be brought down some and man-hour output raised without too much costly liquidation and financial loss. A good deal of adjustment already has been made in some lines without many people being hurt much. Some of the people who lack the experience or capital to do business under the new conditions will fall by the wayside, but that is always happening in a free competitive economy—the only kind we want. As time goes on there will probably be less support from steel and heavy goods and even automobiles than we have now, which suggests that our overall production indexes will go somewhat lower. On the other hand, some industries and some people are going to get their inventories and commitments and prices and operations in such shape this year that they may have a better year in 1950.

As bankers our responsibilities are the same as they always have been to scrutinize our own operations and our costs, and do the most efficient job we can, while serving our customers and our communities. We now have the benefit of a decrease in reserve requirements. We hope that in financing over the next year or two the Treasury will refund some of its maturities with intermediate term bonds, so that the banks will have the material to maintain a proper maturity diversification of their government security portfolios. This is not only desirable to supply commercial banks' investment needs with securities that are suitable for them; it is also good debt management, to maintain a balanced proportion of short, intermediate and long-term maturities.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alabama Gas Corp. (5/17)

March 29 filed \$6,000,000 first mortgage bonds, series A, due 1971. Underwriters—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., White, Weld & Co., Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); The First Boston Corp.; Salomon Bros. & Hutzler and Equitable Securities Corp. (jointly). Proceeds—To pay off \$4,000,000 2 3/4% notes and the balance for construction and working capital. Bids—Bids for purchase of bonds will be received by company at Room 1130, 90 Broad Street, New York, up to 11:30 a.m. (EDT) May 17.

American Hostess, Inc., Akron, Ohio

May 2 (letter of notification) 2,000 shares (\$5 par) common and 2,000 shares of 6% preferred. To be sold at par. No underwriter. For expansion program.

American Steel & Pump Corp.

Sept. 21 filed 200,000 shares (\$2 par) convertible class A stock. Underwriters—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. Price—\$3 per share. Proceeds—To retire indebtedness and for working capital. Financing plan may be revised.

American Telephone & Telegraph Co.

April 21 filed between \$393,000,000 to \$400,000,000 ten-year 3 1/4% convertible debentures, due June 20, 1959. Offering—Offered for subscription by stockholders of record May 6 at the rate of \$100 debenture for each six shares of capital stock held at par (flat). Rights expire June 20. Underwriting—None. Proceeds—For advances to subsidiary and associated companies; for the purchase of stock offered for subscription by such companies; for extensions, additions and improvements to its own telephone plant; and for general corporate purposes.

Argus, Inc., Ann Arbor, Mich.

Nov. 1 filed 115,315 shares (\$10 par) 5 1/2% cumulative convertible preferred stock. Offering—To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3 1/2 shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's (\$1 par) common stock on or before Dec. 31, 1950. Underwriters—Leason & Co., Inc., and First Securities Co., Chicago. Proceeds—For working capital.

Arkansas-Missouri Power Co.

May 10 filed \$3,150,000 of interim notes, due Dec. 15, 1951. Notes are convertible after June 15, 1950, into one share of preferred and two shares of common for each \$45 principal amount of notes. Underwriter—The First Boston Corp. Proceeds—To pay \$700,000 of temporary bank loans, to provide \$1,000,000 for current general corporate purposes and for construction.

Atkins Popcorn Co., Inc., Wilmington (5/17)

April 11 (letter of notification) \$300,000 5% debenture bonds. Price, par. Underwriter—D. F. Bernheimer & Co., Inc., New York. For operating capital.

Avco Manufacturing Corp., New York

April 22 filed 387,041 shares (\$3 par) common stock. The stock is reserved for issuance to officers and supervisory executives under the company's "stock option plan" or options assumed by the company upon acquisition of the assets of its former subsidiary, American Central Manufacturing Corp. on Nov. 20, 1946.

Bangor (Me.) Hydro-Electric Co.

April 22, filed 4,340 additional shares (\$100 par) preferred stock and 54,304 shares of common stock (par \$15). Offering—The preferred is to be offered to preferred and common stockholders at rate of one new share for each 20 preferred shares held and one new preferred for each 80 common shares held. The additional 54,304 shares of common stock will be offered to holders of common stock at the rate of one share for each four shares held. Dealer Manager—Smith, Barney & Co. will head a dealer group. Proceeds—For corporate purposes, including capital expenditures.

Bradshaw Mining Co., Tonopah, Nev.

Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. Price—20 cents per share. Underwriter—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

Bridgeport (Conn.) Hydraulic Co. (6/6)

April 26 filed 36,000 shares of common stock (par \$20). Underwriters—Smith, Ramsey & Co., Gaynor, Clemence & Co., Chas. W. Scranton & Co., Hincks Bros. & Co., T. W. Watson & Co. Offering—To be offered initially to

present stockholders on a 1-for-10 basis. Proceeds—To reduce short-term bank loans. Expected June 6.

California Life Insurance Co., Oakland, Calif.

March 18 (letter of notification) 15,000 shares (\$5 par) class A capital stock. Price—\$10 per share. No underwriter. To raise additional capital and surplus.

Carnegie Mines Ltd., Montreal, Canada

April 27 filed 500,000 shares of common. Price—60 cents per share. Underwriters—Name by amendment. Proceeds—For working capital, exploration, development and other purposes.

Centennial Turf Club, Inc., Denver, Colo.

May 5 filed \$1,600,000 of 6% sinking fund debentures, due Jan. 1, 1965, and 160,000 shares of Class A (\$5 par) common. Offering—To be offered in units of \$100 of debentures and 10 shares of stock at \$150 per unit. Underwriter—Brereton, Rice & Co., Inc., Denver, Colo. Proceeds—To build and operate a horse-racing track.

Chace Industries, Inc., West Chester, Pa.

March 7 (letter of notification) 68,000 shares of 6% non-cumulative preferred stock (par \$4) and 68,000 shares of common stock (par 10c). Underwriter—De Witt Investment Co., 910 West St., Wilmington, Del. To be offered in units of one share of each. Building of factory, installing machinery, working capital.

Cincinnati Gas & Electric Co.

April 15 filed 249,334 common shares (par \$8.50). Offering—Offered for subscription by stockholders of record May 12 in ratio of 1-to-9 at \$22 per share. Rights expire June 3. Underwriting—None. Proceeds—To finance construction program.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.

Aug. 26 (letter of notification) 37,400 shares of 50c cumulative convertible preferred stock. Underwriter—Cantor, Fitzgerald & Co., Inc., New York. Price—\$8 per share. Working capital, etc.

Coleraine Asbestos Co. Ltd., Montreal, Canada

Aug. 16 filed 200,000 shares of capital stock. Price—50 cents per share in Canadian Currency. Underwriter—P. E. Frechette. Proceeds—For drilling operations.

Columbus Gas System, Inc. (5/24)

May 6 filed 1,345,300 shares common stock. Offering—Holders of 13,452,874 shares of common stock of record May 24 will be given rights to subscribe to the new shares at the rate of one share for each ten shares held, plus additional shares not taken up by others. Price, by amendment. Subscription rights will expire about June 14. Underwriting—None, but The First Boston Corp. has agreed to use its best efforts to form and manage a group of security dealers to solicit stockholders' subscriptions for the new shares. Proceeds—Will be added to the general funds to be used in connection with company's 1949 construction program, which will involve net expenditures presently estimated at \$61,958,000.

Consolidated Caribou Silver Mines, Inc., N.Y.C.

March 30 filed 376,250 shares (no par) common stock. Price—\$2.50 per share. An additional 500,000 shares will be sold to the underwriter at \$1 per share for investment. Underwriter—William L. Burton & Co., New York. Proceeds—To develop mining properties. Offering expected on or about May 27.

Co-Op Insurance Co., Phoenix, Ariz.

May 5 (letter of notification) 50,000 shares (\$1 par) capital stock. Price, par. Underwriter—Arizona Co-operative Association. To provide working capital and increase reserve funds.

Detroit Edison Co.

May 4 (letter of notification) 946 shares (\$20 par) capital stock. Price, at market. Underwriter—Gude, Winmill & Co., New York. Proceeds will be held for payment to bearers of scrip certificates.

Detroit (Mich.) Sulphite Pulp & Paper Co.

April 1 (letter of notification) 1,000 shares (\$10 par) common. Price—\$15.50. Underwriters—Wm. C. Roney & Co. and Ferriss Wagner & Miller, Detroit, Mich. Proceeds to selling stockholder.

Divine Tragedy, Inc., New York

May 4 (letter of notification) 30,000 shares of cumulative preferred stock (par \$10). Price, par. Underwriting—None. To finance production, etc., of international motion picture of religious character entitled "The Divine Tragedy." Office, 31 Nassau Street, New York.

Eastern Nebraska Telephone Co.

May 3 (letter of notification) \$60,000 of 4% first mortgage bonds, due May 1, 1969. Underwriter—Wachob-Bender Corp., Omaha, Neb. For plant acquisitions, debt retirement and for additional working capital. Office: Blair, Neb.

Eureka Silver King Mines Corp., Boise, Idaho

April 18 (letter of notification) 300,000 shares of capital stock. Price, 10 cents per share. No underwriter. Quartz mining development and production. Office: 532 First National Bank Building, Boise, Idaho.

Flame Gas Co., Glendive, Mont.

May 6 (letter of notification) 1,900 shares (\$100 par common) and 600 shares of 6% preferred (\$100 par). No underwriter. To construct and operate bulk storage tanks, appliance warehouses and bottled gas filling plants for propane gas.

Gauley Mountain Coal Co., New York

Jan. 19, filed 10,666 shares of capital stock, of which 1,381 shares will be sold in behalf of the company and 9,285 shares will be sold by Norgreen Associates Inc. and

others. Underwriting—None. Proceeds—Company will use its proceeds for additional working capital.

Georgetown Development Corp., Washington, D. C.

May 4 (letter of notification) 100 shares of common. Price—\$100 per share. No underwriter. To secure operating capital.

Government Employees Life Insurance Co., Washington, D. C.

May 5 (letter of notification) 200,000 shares (\$1 par) common. Price—\$1.50 per share. No underwriter. To invest in legal investments under Life Insurance Act of the District of Columbia. Office, Investment Building, Washington, D. C.

Green Lake Beverage Corp., Wilmington, Del.

April 27 (letter of notification) 300,000 shares (\$1 par) class B common. No underwriter. Purchase of equipment and materials for bottling plant and for expansion.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.

June 25 filed 5,000 shares of class B common stock (par \$100). Price—\$100 per share. Underwriter—None. Proceeds—\$600,000 to be used for spectator grandstand and balance for related purposes.

Hokett Vehicular Motion Picture Camera, Inc., Phoenix, Ariz.

May 4 (letter of notification) 90,000 shares of common stock. Price—\$1 per share. No underwriter. For manufacture of motion picture cameras and for operating capital. Office, 2322 N. Ninth Street, Phoenix, Ariz.

Horwood Lake Gold Mines Corp.

Dec. 27 (letter of notification) 100,000 shares of capital stock. Price—\$1 per share. Underwriter—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Idaho-Montana Pulp & Paper Co., Polson, Mont.

Nov. 23 (by amendment) 180,000 shares (\$10 par) common stock to be offered at \$10 per share and 20,020 shares to be issued in exchange for \$170,200 first mortgage bonds. Underwriter—Tom G. Taylor & Co., Missoula, Mont. Proceeds—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

International Harvester Co., Chicago, Ill.

April 29 filed 1,200,000 shares (no par) common. Offering—To eligible employees of company and certain employees of subsidiaries under its Employees' Common Stock Subscription Plan of 1949. Underwriter—None. Proceeds—For general corporate purposes.

Johnson Rubber Co., Middlefield, Ohio

May 4 (letter of notification) 3,000 shares of preferred (par \$100). Price, par. No underwriter. For construction and general corporate purposes.

Keller Motors Corp., Huntsville, Ala.

May 10 filed 5,000,000 shares (3c par) common. Underwriter—Greenfield, Lax & Co., Inc., New York. Price—\$1 per share. Proceeds—For plant facilities, equipment and working capital to manufacture a low-priced, medium-sized station wagon.

Knitmark, Inc., Princeton, N. J.

May 6 (letter of notification) 1,750 shares of capital stock. Price—\$2 per share. Underwriting—None. Manufacturing costs. Office, Kingston Road, Princeton, N. J.

Las Vegas (Nev.) Thoroughbred Racing Assn.

Jan. 25 filed 500,000 shares 6% cumulative preferred stock (par \$5) and 500,000 shares common stock (no par). Underwriting—None. Offering—To be sold in units of one share of each at \$5 per unit. Proceeds—To purchase land and construct racing plant and for working capital.

Link-Belt Co., Chicago, Ill.


April 18 filed 11,196 shares (no par) common. Offering—To be offered to a selected group of officers and employees of the company and its subsidiaries. Price—\$55 per share. No underwriter. For working capital.

Lorain (Ohio) Telephone Co.

April 11 (letter of notification) 7,500 shares (no par) common. Price—\$20 each. No underwriter. To reimburse treasury for outlays for property additions.

Mar-Tex Realization Corp., Dallas, Texas

April 28 (letter of notification) 35,000 shares of common. Price, market. Underwriters—Chas. B. White Co., Houston; First Southwest Co. and Rauscher Pierce & Co., Dallas. Proceeds go to Benneit L. Wooley, a stockholder.



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NEW ISSUE CALENDAR

May 13, 1949

Sightmaster Corp. Common

May 16, 1949

Cambria & Indiana RR. Equip. Trust Cdfs.

May 17, 1949

Alabama Gas Corp., 11:30 a.m. (EDT) Bonds

Atkins Popcorn Co., Inc. Debentures

Erie RR., noon (EDT) Equip. Trust Cdfs.

May 18, 1949

Pennsylvania RR., noon (EDT) Equip. Trust Cdfs.

May 19, 1949

United Biscuit Co. of America Preferred

May 24, 1949

Columbia Gas System, Inc. Common

June 1, 1949

Southern Indiana Gas & Electric Co. Bonds

June 6, 1949

Bridgeport Hydraulic Co. Common

Virginia Electric & Power Co. Bonds

June 7, 1949

Public Service Electric & Gas Co. Bonds

June 27, 1949

Atlantic Coast Line RR. Equip. Trust Cdfs.

Mayflower Co., Salt Lake City, Utah

March 14 (letter of notification) 100,000 shares (1c par) common. Price, 10 cents per share. Underwriter—The Cromer Brokerage Co., Salt Lake City. To liquidate debts and provide funds for operating expenses.

New York State Electric & Gas Corp.

May 9 filed 73,333 shares (\$25 par) common. Offering—To be offered stockholders on a 1-for-12 basis. Underwriters—The First Boston Corp., Lehman Brothers, Wertheim & Co. and Merrill Lynch, Pierce, Fenner & Beane. Proceeds—To discharge \$3,000,000 of presently outstanding \$4,000,000 of short-term notes and for new construction.

Nielsen Television Corp., New York

Feb. 24 (letter of notification) 4,000 share of 6% cumulative non-convertible preferred stock (par \$25) and 10,000 shares of common stock (par 25¢). Underwriter—Charles H. Drew & Co., New York. Offering—To be offered in units of one preferred share and 2½ common shares at \$25.625 per unit. Capital requirements. Present plans will be revised.

Norma Oil Corp., Seguin, Tex.

April 25 (letter of notification) 300,000 shares (40¢ par) class A stock. Price—\$1 per share. Underwriter—Cantor, Fitzgerald & Co., Inc. For drilling oil wells, purchase of equipment and leaseholds and for additional working capital.

Oklahoma Gas & Electric Co.

May 5 filed \$10,000,000 first mortgage bonds, due June 1, 1979. Underwriters—Names to be determined through competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Lehman Brothers and Blyth & Co., Inc. Proceeds—For construction and payment of \$3,500,000 of short-term bank loans.

Pay Rock Oil, Inc., Tulsa, Okla.

May 3 (letter of notification) 900,000 shares of common stock. Price, 30 cents per share. Underwriter—Security Royalties, Inc. For the repurchase of stock of the corporation under offer of rescission and for operating expenses.

Pioneer Finance Co., Detroit, Mich.

May 2 (letter of notification) 22,654 shares of 6% cumulative convertible preferred stock (\$10 par) and 135,924 shares (\$1 par) common, reserved for conversion. No underwriter. For additional working capital. Office: 901 National Bank Building, Detroit 26, Mich.

Power Petroleum Ltd., Toronto Canada

April 25 filed 1,150,000 shares (\$1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. Price—50 cents per share. Underwriters—To be named by amendment. Proceeds—For administration expenses and drilling.

Public Finance Service, Inc., Philadelphia

May 5 (letter of notification), \$250,000 6% cumulative debentures, dated Dec. 1, 1942. Price, par. Underwriting—None. General corporate purposes. Office, 18 West Cheltenham Avenue, Philadelphia 44, Pa.

Public Service Co. of New Hampshire

May 9 filed 104,804 shares of common stock (par \$10). Offering—To be offered to stockholders on a one-for-eight basis. Unsubscribed shares will be sold to underwriters, who also may receive compensation for soliciting stockholder subscriptions. The company requests that the offer and sale of the stock be exempted from competitive bidding. New England Public Service Co. (parent), holder of 58.88% of the outstanding common stock of Public Service will surrender for cancellation the warrants evidencing its preemptive right to subscribe for the additional common stock to which it is entitled and will not subscribe to any of the new common stock. Common stockholders will be entitled to purchase shares in excess of their ratable allotment; and holders of the company's preferred stock will be offered a similar opportunity to subscribe to the new, unsubscribed shares. Proceeds—For construction and repayment of short-term bank borrowings. Underwriters—Names by amendment. Probable underwriters: Kidder, Peabody & Co.; Blyth & Co., Inc.

Public Service Co. of Oklahoma

May 9 filed 50,000 shares of (\$100 par) cumulative preferred stock. Underwriters—Names to be determined through competitive bidding. Probable bidders include: Glore, Forgan & Co. and Smith, Barney & Co. (jointly); Harriman Ripley & Co. and Central Republic Co. (jointly). Proceeds—To pay the cost of property additions and betterments.

Public Service Electric & Gas Co. (6/7)

May 6 filed \$75,000,000 first and refunding mortgage bonds, due June 1, 1979. Underwriters—Names to be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Lehman Brothers (jointly). Proceeds—To reimburse, in part, the company for past construction expenditures; and to pay at maturity \$9,475,300 of Hudson County Gas Co. first mortgage 5% gold bonds, due Nov. 1, 1949. Bids expected to be opened June 7.

Renaissance Films Distribution, Inc., Montreal, Que.

Oct. 29 filed 40,000 shares (par \$25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). Underwriting—None. Offering—Class B preferred will be offered at \$25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. Proceeds—To pay balance of current liabilities and working capital.

Robinson Plywood & Timber Co., Everett, Washington

Nov. 17 filed 271,025 shares (\$1 par) common stock, of which 105,000 shares are to be offered by company, and 166,025 shares by 15 selling stockholders. Underwriter—Blyth & Co., Inc. Proceeds—To company from the sale of the 105,000 shares will be added to working capital, except about \$275,000 may be advanced to a new subsidiary to be used by it in making part payment of the option purchase price of one-half of the stock of Conifer Timber Co., Fortson, Wash. Indefinitely postponed.

Rocky Mountain Kennel Club

May 3 (letter of notification) 2,000 shares of preferred stock (par \$100). Price, par. No underwriter. To purchase track site, build grandstand, kennels, race track and club house and for working capital. Office: 511-512 Carlton Building, Colorado Springs, Colo.

Shomee Oil Corp., St. Louis, Mo.

March 28 (letter of notification) 150,000 shares of class A common (par \$1). Price, par. Underwriter—John R. Kauffmann Co., St. Louis, Mo. For working capital.

Sightmaster Corp., New Rochelle, N. Y. (5/13)

May 9 (letter of notification) 425,940 shares of common stock (par 5¢) and options for 107,562 common shares (owned by Michael Kaplan and sold for his benefit). Underwriter—Willis E. Burnside & Co., New York. Price—50¢ per share. General fund to be used in expansion of manufacturing facilities, working capital, etc. [In September, 1948, 99,000 shares of stock (par 25¢) were offered at \$3 per share of which 28,010 shares sold. Unsold 70,990 shares split into 425,940 shares and now being offered.]

South Carolina Electric & Gas Co.

April 11 filed 308,000 shares common stock (par \$4.50). To be offered for subscription by stockholders of record May 13 for a period of 15 days on a 1-for-4 basis. Underwriter—Kidder, Peabody & Co., New York. Proceeds—To finance construction program.

Southern California Edison Co.

May 5 filed 800,000 shares (\$25 par) common. Underwriters—The First Boston Corp. and Harris, Hall & Co. (Inc.). Proceeds—For construction.

Southern Indiana Gas & Electric Co. (6/1)

April 29 filed \$3,000,000 first mortgage bonds, due June 1, 1979. Underwriters—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Kidder, Peabody & Co.; Union Securities Corp.; Harriman Ripley & Co.; Carl M. Loeb, Rhoades & Co. Proceeds—To finance a continuation of the company's construction program. Bids expected to be opened on or about June 1.

Southern Union Gas Co., Dallas Texas

May 9 filed \$3,679,464 of sinking fund debentures, due July 1, 1964, and 325,000 shares (\$1 par) preference stock under a proposal to merge with Texas Public Service Co. Stockholders of the latter company will receive \$12 of debentures and one share of preference for each share of Texas Public Service common. Of the preference being registered 18,378 shares will be used by

Southern Union to pay for expenses of merger. Underwriter—E. H. Rollins & Sons, Inc.

Spreckels Companies, San Francisco, Calif.

April 15 filed 125,000 shares (\$10 par) capital stock and \$4,000,000 5% sinking fund debentures, due March 1, 1969. No underwriter. To pay off notes and for working capital.

Staten Island (N. Y.) Edison Corp.

May 9 filed \$2,750,000 of first mortgage bonds, due May 1, 1979, and 40,000 shares (\$100 par) cumulative preferred stock. Underwriters—Names to be determined through competitive bidding. Probable bidders on bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Kidder, Peabody & Co.; Otis & Co. On Preferred: W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers; The First Boston Corp. Proceeds—To pay off \$1,500,000 of short-term notes and for construction.

Stevenson Plywood Corp., Hoquiam, Wash.

May 5 (letter of notification) 200,000 shares of preferred stock, to be sold at \$1 per share to an affiliate, Stevenson Plywood & Lumber Sales Co. No underwriter. To complete building plywood plant and for working capital. Office, 2017 Simpson Avenue, Hoquiam, Wash.

Suburban Gas Service, Inc., Ontario, Calif.

March 31 (letter of notification) 4,000 shares (\$25 par) series B preferred and 20,000 shares (\$1 par) common—issuable upon conversion of preferred. Price—Preferred \$25 per share. Underwriters—Wagenseller & Durst, Inc., and Lester & Co. To buy Antelope Liquid Gas Co.

Tennessee Odin Insurance Co., Knoxville, Tenn.

March 29 (letter of notification) 3,800 shares (no par) capital stock. Price—\$8.50 per share. Underwriters—J. C. Bradford & Co.; Elder & Co.; Strader, Taylor & Co.; Bullington-Schas & Co.; Marx & Co.; Stein Bros. & Boyce.

Texas Engineering & Manufacturing Co., Inc., Dallas, Texas

April 22 (letter of notification) not more than \$100,000 (\$1 par) common stock. Price, at market. Underwriters—Beer & Co.; Merrill Lynch, Pierce, Fenner & Beane and Rauscher, Pierce & Co.

Thomas Mining & Milling Co., Seattle, Wash.

May 3 (letter of notification) 100,000 shares of common stock (par \$1). Price, par. No underwriter. To buy mining equipment and for development work. Office: 5614 40th Avenue, N. E., Seattle 5, Wash.

Thompson Industries, Inc., Boston

March 31 filed 120,000 shares (\$1 par) convertible preferred stock. Offering—32,214 shares are to be offered to holders of present \$6 cumulative preferred stock at the rate of one new share for each one held on an exchange basis. The remainder are to be offered on a pro rata basis to other holders of \$6 cumulative preferred stock at \$15 a share. Underwriter—None. Proceeds—To modernize restaurant operations.

Trenton Chemical Co., Detroit, Mich.

March 30 filed 131,841 shares 6% cumulative convertible class B preference (\$2 par). Underwriters—Straus & Blosser, Chicago; Carr & Co., Detroit, and Lester & Co., Los Angeles. Proceeds—To build chemical plant and to replace working capital used for capital additions. [Under a previous registration statement (No. 7637), which became effective Sept. 24, 1948, company sold 43,159 shares of 6% cumulative preferred stock for a total of \$97,108 and removed 131,841 shares from registration March 21, 1949.]

Mrs. Tucker's Foods, Inc., Sherman, Texas

Nov. 26 filed 200,000 shares of common stock (par \$2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. Underwriter—Rauscher, Pierce & Co., Inc., Dallas, Texas. Proceeds—For general corporate purposes.

United Biscuit Co. of America (5/19)

April 27 filed 80,000 shares (no par) cumulative preferred stock. Underwriter—Goldman, Sachs & Co., New York. Proceeds—To apply payment on \$3,000,000 of notes held by Manufacturers Trust Co., New York, and for general funds.

U. S. Oil & Gas Corp., Shreveport, La.

April 26 (letter of notification) 800,000 shares (10¢ par) common. Price—37½¢ per share. Underwriter—Stewart J. Lee & Co., New York. For drilling and equipping five wells and for working capital.

United Wholesale Druggists of Portland, Inc.

May 3 (letter of notification) 906 shares (no par) capital stock. Price, \$50 per share. No underwriter. For purchase of merchandise for resale to retail druggists and for working capital. Office: 322 N. W. 14th Avenue, Portland 9, Ore.

Upper Peninsula Power Co.

Sept. 28 filed 200,000 shares of common stock (par \$9). Underwriters—Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). Proceeds—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Vacu-Top Jars, Inc., New York

May 5 (letter of notification) 50,000 shares of common stock (par \$1). Price—\$5 per share. Underwriting—None. General corporate purposes. Office, 420 Lexington Avenue, New York 17, N. Y.

Virginia Electric & Power Co. (6/6)

May 4 filed \$20,000,000 first and refunding mortgage bonds, due June 1, 1979. Underwriters—Names to be determined through competitive bidding. Probable bidders: (Continued on page 46)

(Continued from page 45)

White, Weld & Co.; Union Securities Corp.; Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly). **Proceeds**—For construction. Bids expected to be opened June 6.

Western American Life Insurance Co., Reno
March 30 filed 12,500 shares (\$10 par) common stock. **Price**—\$40 each. **Underwriter**—To be named by amendment. **Proceeds**—To qualify the company to sell life insurance in any state.

Western Oil Fields, Inc., Denver, Colo.
Jan. 5 (letter of notification) 1,000,000 shares (1c par) common. **Price**, 10 cents per share. **Underwriter**—John G. Perry & Co., Inc., Denver, Colo. To drill a well and acquire additional properties.

Prospective Offerings

• American Natural Gas Co.

American Light & Traction Co. has asked the SEC for authority to amend its charter to change its name and common stock terms. The new name would be American Natural Gas Co. Par value of the company's authorized 4,000,000 shares of common would be changed from \$25 to no par. This par value change is planned in anticipation of additional common stock financing to supply equity capital to subsidiaries.

• Atlantic Coast Line RR. (6/27)

May 9 reported company plans the sale about June 27 of \$8,685,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

• Cambria & Indiana RR. (5/16)

The company has issued invitations for bids to be received May 16 for the purchase from it of \$650,000 equipment trust certificates. The certificates will be dated June 1, 1949, and are to mature in 10 annual instalments June 1, 1950-59. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

• Consolidated Gas Electric Light Power Co. of Baltimore

May 6 reported company plans sale of about 237,000 common shares, to be offered initially to stockholders. The First Boston Corp. may be underwriter.

• Delaware Lackawanna & Western RR.

The company has issued invitations for bids to be received at the office of J. G. Enderlin, Treasurer, at Room 2008, 140 Cedar Street, New York, before noon (EDT) May 25 for the purchase of \$3,150,000 in 1-to-15-year equipment trust certificates. The certificates will be dated April 1, 1949, and are to mature \$210,000 annually April 1, 1950-64. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Freeman & Co.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

• Erie RR. (5/17)

Company will receive bids up to noon (EDT) May 17 at its office, Cleveland, O., for the purchase of \$3,450,000 equipment trust certificates, due 345,000 annually May 15, 1950-1959. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harris Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

• Florida Power & Light Co.

May 5 reported company has plans under consideration for sale, probably in June, of \$10,000,000 in new bonds. Probable bidders: Harriman Ripley & Co.; Halsey, Stuart & Co. Inc.; White, Weld & Co.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Bros.; The First Boston Corp.

• Illinois Power Co.

May 6 North American Co. plans sale at early date of 243,000 common shares of Illinois Power Co. Probable bidders: White, Weld & Co.; Kidder, Peabody & Co. and Lee Higginson Corp. (jointly); Goldman, Sachs & Co.; Hornblower & Weeks and Paine, Webber, Jackson & Curtis (jointly); The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co. Inc.; Smith, Barney & Co.

• Kansas Gas & Electric Co.

May 6 American Power & Light Co., New York, asked the SEC to permit the public sale of not less than 200,000 shares and up to 450,000 shares of its present holdings of Kansas Gas & Electric Co. common stock. The number of shares to be sold will be determined by market conditions at the time of sale. Kansas Gas plans to sell at the same time 100,000 shares of its common stock to finance construction. Both companies seek exemption from the Commission's competitive bidding rule in connection with the stock offering. The SEC's Division of Public Utilities has notified the Commission that it is opposed to granting such exemption.

• Missouri-Kansas-Texas RR.

May 6 company applied to the ICC for authority to sell competitively \$2,500,000 equipment trust certificates, third series, 1949. The certificates are to mature semi-annually Dec. 15, 1949, through June 15, 1964. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

• New Jersey Power & Light Co.

May 9 reported company contemplated the sale early in July of \$2,000,000 of bonds and \$3,500,000 of preferred stock.

• New York State Electric & Gas Corp.

May 9 company proposes after the sale of 73,333 shares of common stock (registered with SEC May 9) to sell \$4,000,000 serial preferred stock, the proceeds to be used to discharge short-term notes and to finance new construction. Probable bidders: W. C. Langley & Co.; Lehman Brothers and Glore, Forgan & Co. (jointly); Harriman Ripley & Co.

• Pacific Power & Light Co.

May 11 reported company is contemplating the sale of bonds to the public, but no amount has yet been fixed. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp.

• Pacific Western Oil Corp.

May 10 reported the corporation probably will be in the market with securities to buy shares of Tide Water Associated Oil Co. held by the Dutch and to finance its purchase of oil concessions in the Middle East. It is thought that the offering may be for as much as \$24,000,000, although there is as yet no determination as to whether it may be in the form of bonds or stock or a combination.

• Pennsylvania Electric Co.

May 9 reported company is expected to be in the market for \$5,000,000 of bonds and \$5,000,000 of preferred stock, when its parent, Associated Electric Co., has retired all of its indebtedness. Probable bidders include Equitable Securities Corp.

• Pennsylvania RR. (5/18)

Bids for the purchase of \$10,425,000 equipment trust certificates, series X, dated May 1, 1949 and due in 15 annual instalments of \$695,000 from May 1, 1950-1964, will be received by company at Room 1811, Broad Street Station Bldg., Philadelphia, up to noon (EDT) May 18. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

• Public Service Co. of New Hampshire

April 25 reported company plans to sell about \$4,000,000 bonds at an early date. Possible bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. and Coffin & Burr Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co. (jointly); Smith, Barney & Co. and Harriman Ripley & Co. (jointly).

• Rochester Gas & Electric Corp.

May 10 new money requirements of the corporation for the balance of 1949 amount to \$3,500,000, but no definitive plans for raising these funds have yet been developed. In addition, company's management is considering the advisability of carrying out the refunding of its series G, H, and I bonds, amounting to approximately \$8,000,000.

• Seaboard Air Line RR.

May 9 reported company will be in the market early in June with an equipment trust certificate offering for about \$2,500,000. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.

• Southern Natural Gas Co.

April 21 company asked SEC permission to issue 141,353 shares of common stock, to be offered for subscription by stockholders, in ratio of one new share for each 10 shares held, with privilege of subscribing for shares not subscribed for. Proceeds are to be applied to financing company's construction program and to purchase additional common stock of Alabama Gas Corp., subsidiary. Issue will not be underwritten. SEC will hold hearings on company's application May 16.

• Texas Power & Light Co.

May 11 reported company plans to sell \$7,000,000 of bonds to the public in order to finance its construction and expansion program. In addition, it will sell \$3,000,000 of common stock to its parent, American Power & Light Co.

• Virginia Electric & Power Co.

May 4 approximately \$46,000,000 of further financing is planned by the company over the next three years to finance the remainder of its postwar construction program. This is in addition to the \$20,000,000 bond issue which the company registered with the SEC May 4 to finance its 1949 program, estimated at \$33,000,000. Probable bidders: White, Weld & Co.; Union Securities Corp.; Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

Our Reporter's Report

The changed complexion of the investment market and the apparent revision of ideas on yield held by portfolio managers for institutions find reflection in the behavior of the general run of recent new issues.

In contrast with the situation prevailing a month or six weeks ago, it is the exception, rather than the rule, to find one of these new arrivals selling at a discount from the offering price.

That holds true in the case of preferred stocks, which have made their appearance in recent weeks, as well as new bond issues. Evidently a combination of circumstances namely a slowing down in new emissions and the need to invest a steady influx of institutional funds have contributed to the turnabout.

A perusal of the current status of a group of 22 recent issues, including 13 bonds, or debt securities, and nine preferred stocks, reveals that only four of the new debt securities have failed to move to a pre-

mium and, even in these cases approximate the offering price, while but two preferred stocks have eased to slight discounts.

In other words 16 of the 22 issues involved are commanding premiums, in some instances as in the case of New England Power Co. 3s, of almost a full two points. Among the preferred stocks Oklahoma Gas & Electric Co.'s 5½% preferred rules at a 4½ point premium on the bid side, and Public Service of Colorado's 4.4% preferred at a premium of 5¾ points.

By the Numbers

With the flow of new issues a bit on the slow side and those making their appearance assuming the proportions which scarcely require a large selling group, competing bids are plentiful these days.

Two relatively small issues brought out this week, one for Indianapolis Power & Light Co., and the other for Potomac Electric Co., drew a total of 16 bids.

The successful bidder set a price of 101½ on Potomac Electric's \$10 million of 2½s to yield 2.81%, and for Indianapolis Power's \$8 million of 3s, the offering price was 101.769 to yield 2.90 with both reported moving out quickly.

Swelling the Backlog

Adding to the potential for June which promises to be a more active month for underwriters, Public Service Electric & Gas Co.,

has registered for an issue of \$75 million of new 30-year first and refunders.

The plan is to open bids for this big undertaking on June 7 and proceeds will be used largely for funding and refunding purposes.

The company has an \$18,980,500 maturity coming due on June 1 which will be met out of treasury funds pending the foregoing financing. Another \$20 million will be applied to repayment in advance of outstanding bank loans, and the balance will go into general funds, for use among other things, in meeting a Nov. 1 maturity of \$9,475,300 of prior lien bonds.

Municipal Prospects

With the inventory of municipal issues in hands of dealers holding persistently around \$125 million, judging by the so-called "blue list," several very substantial new prospects have come into sight within the week.

Largest by far, if carried through in a single operation, is North Carolina's \$200 million project for rural roads, tied to a proposed increase of one cent a gallon in the State gasoline tax. This issue along with an additional \$25 million of school bonds, will be up for consideration of voters at a special election set for June 4.

Meanwhile Minnesota is expected to call for bids soon on \$84

million veteran bonus bonds, to mature in 10 equal instalments and carry interest averaging not more than 2% annually.

The new Pennsylvania General State Authority moreover, is moving to float \$30 million of 30-year bonds. These would be sold to State retirement funds, if the latter have the money, but would be put up for competitive bidding in the event that the funds cannot absorb them.

Potomac Elec. Common Offered - Underwritten By Dillon, Read & Co.

Potomac Electric Power Co. is offering to the holders of its common stock of record May 10, 1949, the right to purchase an additional 592,250 shares at \$12.50 per share on the basis of one new share for each five shares held. The offering has been underwritten by Dillon, Read & Co. Inc. and a group of Washington dealers.

The company will use the proceeds along with the proceeds from the sale of \$10,000,000 first mortgage 2½% series bonds to reimburse it for capital expenditures previously made, to meet the 1949 construction expenditures, and to advance funds to its subsidiary, Braddock Light &

Power Co., Inc., to be applied toward that company's construction program. It is estimated that the company and its subsidiary will spend in connection with the construction program approximately \$25,100,000 in 1949, \$16,700,000 in 1950, \$15,000,000 in 1951 and \$10,000,000 in 1952.

It is anticipated that these expenditures will include \$19,500,000 to complete the two 80,000-kilowatt generating units being installed in the Braddock company's new Alexandria, Va., power plant, the first of which is to be completed in July, 1949, and \$8,000,000 to install a 25,000-kilowatt generating unit in the company's Benning power plant.

The company has paid dividends on its common stock in each year since 1904. A quarterly dividend of 22½ cents per share was paid on March 31, 1949, which has been the rate at which quarterly dividends have been paid since reclassification of the common stock in 1947. A dividend at the same rate is to be paid on June 30, 1949, to holders of record June 6, 1949.

Associated with Dillon, Read & Co. Inc. in the underwriting are: Auchincloss, Parker & Redpath; Alex. Brown & Sons; Folger, Nolan Inc.; Johnston, Lemon & Co.; Ferris & Co.; Goodwyn & Olds; Robert C. Jones & Co.; Mackall & Coe, and Robinson and Lukens.

The Investor Under Socialization

(Continued from page 5)

outside equity capital. It is against this background that the President and other Administration spokesmen have been clamoring for enormous increases in steel capacity and threats of government intervention in the event of lack of expansion in conformity with the planners' specifications.

The Undermining of Banking

Likewise with the banks, the inroads of various kinds on earning power make it difficult, if not impossible, to secure additional capital from private investors. This in turn leads to the increased stepping-in of the government as the lender to worthy as well as unworthy borrowers, and also entails the provision of government capital to bolster the condition of existing banks—all a filip toward "unwelcome" socialism.

This "need for stepping-in" rationalization seems to be akin to the modernistic Hitler-Stalin international political strategy under which aggressors take over new territory on the excuse that they must clear up confusion which has actually been created by themselves.

The "Fair Deal" Keynote

The Spence Bill is a good indication of the scope of our "democracy-loving" planners' philosophy. Under the proposed provisions of this keynote of the Fair Dealers the President would be given the widest possible latitude in fixing prices and delaying their changes and otherwise substituting his judgment for that of the free market, and the government would be permitted to enter into all kinds of business, besides steel.

Our present Administration's philosophy is based on the widely held illusion that it is immaterial whether investment comes from private or government sources, provided that it comes at all. Actually this is not so; the dollar extended by the government is bound up with actual or threatened government control, and further the government's money is secured by taxation levied on the most successful—and hence productive—citizens.

In the words of Robert S. Byfield: "if the rich are going to carry the poor, the well carry the sick, the young carry the old, the landlords carry the tenants and the employed carry the jobless, someone is going to have to pay the bill. As the British experience is definitely proving, the high bracket taxpayer simply cannot carry the load since social welfare costs inevitably exceed estimates and there is no one to carry the man with venture capital ex-

cept the sheriff and the undertaker."

"Pyramid Clubbing"

Our leaders' "emotional security" thinking fits into the recent *Pyramid Club* rage throughout the country. As Donald P. Jones, Comptroller of the Sun Oil Co. recently said:

"The greatest single threat to our liberties lies in the tendency to look upon government as a national pyramid club that can make everybody rich.

"Government handouts that do not result in the creation of goods or services merely succeed in pyramiding costs, adding to the money supply and stimulating inflation."

Living Under a Condition, Not a Theory

We thus conclude that we must fix our individual practical policies on the premise that it is going to be extremely difficult to contain the socialization either as to time or extent. The American farmer is not going to cast his vote against his own subsidization any more than the Britisher is going to throw out of power benefactors who furnish him with free spectacles and toupees. Nor is the businessman a different breed of self-interested human. Shouting for laissez-faire, he is nevertheless the first to rush to Washington when he himself is in need of help.

Even if we are not going to have real socialism over the short-term—without quibbling over terminology—we must, at least, assume that we are going to have a "labor government." Even if not in name, it will be so in fact. But whether so-called Socialist or so-called Labor, from a practical real-world approach, as materialistic individuals, we must learn to live with it in the years ahead.

One phase of such individual behavior which is important to many of us—and composes the topic of our discussion this evening—is that which concerns us as investors.

The Status of the Investor

Under our assumed over-riding social-political trend, what is the real position of the investor, and what actually can be accomplished either in net gain or in self-protection?

First let us consider the investor's long-term fundamental, "qualitative" status.

Of course there is a basic conflict between the long-term interests of the investor-as-capitalist on the one hand and collectivism on the other; and the latter will undermine the former. Thus this advertisement published by a Philadelphia investment firm, though far-fetched and self-interested,

reflects a Street philosophy that is valid:

"Do Communists buy stocks? ... Americans should. When are the duly elected representatives of our country going to tell the American people that now is the time for them to join the greatest army in history—the Army of American shareholders? Keep America strong. Defeat Communism. Enlist now in the army of American shareholders by buying stocks today."

The Long-Term Effects

Of course, the real long-term interests of the security-owner, both bondholder and stockholder, along with the other owners of capital, are broadly undermined and damaged by socialization. Witness the inroads of taxation during the past 20 years, with the top personal surtax rates having been boosted from 20 to 88%, and the flat corporation tax from 11 to 38%. Although the common stockholder can seek capital gains which are taxed at a ceiling of 25%, he is only deluding himself if he does not realize that the value and hence ultimate price, of his stock, are dependent on the net-after-tax income yield attainable by some security-holder.

Inflation with and through Socialization has likewise undermined the security holder in his efforts to maintain his standard of living. In the 1937-1948 period the cost of living borne by the American investor rose by almost 60% while, at the same time as his common stocks (as measured by the averages) actually declined by 10%. The bondholder, suffering from the same living cost rise, was additionally hit by artificially-lowered money rates, which entailed a decline of about 15% in the return from the corporate bonds he actually held (through calls and forced refunding), and a reduction of 20% in any fixed interest securities he would want to buy.

The British investor has suffered a similar "wage-price" squeeze. Since 1935 his capital invested in common equities has risen by about 30%, while his living costs have risen by 50%.

The Investors' Political Pushing Around

Of course the incidences of socialization and of inflation are not necessarily the same. The former determines the political climate hanging over the investment community, and can exist quite apart from the presence of inflation. Relevant to this political atmosphere is an interesting study which appeared in the Letter of the National City Bank of New York last July, showing the extent to which individuals engaged in various vocations were better or worse off than they had been in 1930, after allowances for Federal income taxes and adjustments in the net income for changes in the cost of living. With the 1930 living standard taken as 100, the coal miner at 191 was the best off, the textile worker next at 139, and then the railway worker with 122, the railway executive 78, the Congressman 74—at the tail end being the stockholder at 79 and the small bondholder at 38. In any potential period of deflation in either Britain or America, there can be little doubt that in the politically-dictated shuffle the security-holder will be left at the bottom of the list.

Effect on Wall Street

Just a word about the recent repercussions on the investment profession and business. Risk funds forming the demand for stock-buying have always largely come from the investible surpluses of upper-income-groupers. But this source is being gradually eliminated by ever more drastic income and inheritance taxation.

This has entailed a mere switching from stock to stock, and flight into tax-exempt securities by the wealthy; while the lower-income groups, to whom stock investing seems unfamiliar or definitely unpalatable, are putting their newly-acquired means into their own businesses or higher living standards.

So much for the "fundamental" "qualitative" conflict between socialization and the investment community.

Price Effects

Price-wise, however, the historical record clearly shows that common assumptions about the effects of our creeping (or jumping) socialization must be carefully scrutinized.

Let me point out the widely and repeatedly practiced fallacy of assuming correlation between the advance of socialism and the movement of stock prices—particularly that socialization is to be linked to falling prices. Our press—which should have known better—during its recent whistling-in-the-dark phase of appeasement about the Fair Deal, on many occasions editorially pointed to stock market rallies (ridiculously small though they were) as proof that there was nothing to worry about on the score of Truman Socialism.

During the market rally which followed President Truman's State of the Union Message, far from being called, as the month before, a herd of moronic nincompoops, the Wall Street community suddenly seemed to deserve the highest accolades as the nation's number-one political analysts.

In recent years common stocks in France have risen much more than in England, Canada, or the United States, because of both the inflation and political fears. In England, where the political threats have been quite strong, the reaction to both the political and monetary fears has been a moderate rise in share prices (in terms of money). Most surprising to many is it that London's stocks are above their level when the Labor Government took over in July, 1945, despite all the effected and impending nationalization, confiscatory taxation, and other anti-capitalist policies. Similarly Norway's postwar socialization has been accompanied by a rise of 11% in her common stocks to a level 53% above 1945.

In the inter-war period the effect of socialization and inflation on equities was clearly demonstrated in Europe. Common stock dividends steadily fell, and were lower absolutely and expressed as a ratio to government bond yields in Great Britain, France, Austria, Italy and the Netherlands than they were in the United States.

During Leon Blum's socializing Front Populaire in France in 1937, equity share prices rose by 70% during a six-month period.

So we see that not only is there no correlation anywhere between

MEETING NOTICE

The New York Central Railroad Company
Albany, N. Y., April 16, 1949.

The Annual Meeting of the Stockholders of The New York Central Railroad Company, for the election of Directors and of three Inspectors of Election and the transaction of such other business as may be lawfully brought before the meeting, will be held at the principal office of the Company, Room 20, Union Depot, in the City of Albany, N. Y., on Wednesday, May 25, 1949, at 12 o'clock Noon.

Stockholders of record at 3 o'clock P. M., on April 22, 1949, will be entitled to vote at the meeting.

JOSEPH M. O'MAHONEY, Secretary.

the direction of stock prices and the degree of national socialization; but also that it is especially fallacious to assume that an advancing market is taking its cue from expected preservation of free enterprise.

Too often, satisfactory behavior of stock prices has acted here and abroad as just another anti-Socialist opiate.

* * *

In closing I would make the following net conclusion: Irrespective of the reasons therefor, the record of actual experience in other countries indicates that during prospective stages of collectivist encroachment of our Socialist State, we can expect all owners of capital to suffer progressively, but with such deterioration partly mitigated by being in the equity-ownership rather than in the rentier class.

DIVIDEND NOTICES

Allegheny Ludlum Steel Corporation

Pittsburgh, Penna.

At a meeting of the Board of Directors of the Allegheny Ludlum Steel Corporation held today, April 29, 1949, a dividend of one dollar twelve and one-half cents (\$1.12½) per share was declared on the \$4.50 Cumulative Preferred Stock of the Corporation, payable June 15, 1949, to Preferred stockholders of record at the close of business on June 1, 1949.

S. A. McCASKEY, JR., Secretary.

ALLIS-CHALMERS MFG. CO.

COMMON DIVIDEND NO. 100

A regular quarterly dividend of forty cents (40¢) per share on the issued and outstanding common stock, without par value, of this Company, has been declared, payable June 30, 1949, to stockholders of record at the close of business June 7, 1949.

PREFERRED DIVIDEND NO. 11

A quarterly dividend of eighty-one and one-quarter cents (\$81¼¢) per share on the 3¼% Cumulative Convertible Preferred Stock, \$100 par value, of this Company has been declared, payable June 5, 1949, to stockholders of record at the close of business May 20, 1949.

Transfer books will not be closed. Checks will be mailed.

W. E. HAWKINSON,
Secretary and Treasurer.

May 5, 1949.

THE DAYTON POWER AND LIGHT COMPANY

DAYTON, OHIO

12th Consecutive Quarterly Dividend

The Board of Directors has declared a regular quarterly dividend of 45¢ per share on the Common Stock of the Company, payable on June 1, 1949 to stockholders of record at the close of business on May 17, 1949.

B. C. TAYLOR, Treasurer

May 6, 1949

Imperial Oil Limited

NOTICE TO SHAREHOLDERS AND HOLDERS OF SHARE WARRANTS

NOTICE is hereby given that a dividend of 25 cents per share in Canadian currency has been declared and that the same will be payable on or after the 1st day of June, 1949.

The payment to registered shareholders of record at the close of business on the 15th day of May, 1949, will be made by cheque mailed from the offices of the Company on the 31st day of May, 1949.

In respect of the shares specified in any bearer share warrant of the Company such dividend will be paid upon presentation and delivery of coupons No. 72 at any branch of The Royal Bank of Canada in Canada.

The transfer books will be closed from the 17th day of May, 1949 to the 31st day of May, 1949.

Non-residents of Canada may convert this Canadian dollar dividend into United States currency or such other foreign currencies as are permitted by the Canadian Foreign Exchange Control Board at the official Canadian Foreign Exchange Control Board rates prevailing on the date of presentation. Such conversion can be effected through a Canadian branch of any Canadian Chartered Bank or at the agency of The Royal Bank of Canada, 68 William Street, New York City, who will furnish forms and information regarding Income Tax deductions and credits.

BY ORDER OF THE BOARD

COLIN D. ORICHTON, General Secretary.
56 Church Street,
Toronto 1, Ontario,
May 5, 1949.

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Washington... And You

Behind-the-Scene Interpretations
from the Nation's Capital

WASHINGTON, D. C.—From following closely what happened last week to labor legislation in the House one can get a much better look at the contour of things to come for the balance of this first session of the Eighty-first Congress.

For one thing there was only an outward appearance of confusion in the jumbled parliamentary procedure. The result was clear. It was what had been long expected. The House made it doubly clear that if any legislation emerges from this session of Congress amending the Taft-Hartley Act, that legislation will be in its main outlines substantially like Taft-Hartley.

This spells a certain defeat for the Administration even if it attempts once more to "repeal Taft-Hartley." It spells certain defeat also for organized labor. It spells a failure of the legislative project upon which the Administration has invested its greatest effort, not excluding the motion to amend the Senate rules so as to clear the way for a "civil rights" program.

This action is significant for future legislation. Mr. Truman, by exceedingly poor parliamentary management, has virtually recreated the coalition of Southern Democrats and Northern conservative Republicans. Such a coalition has been discounted widely by seasoned politicians as a positive force. By his blunder on the cloture matter and by his almost equally great blunder in threatening OPENLY to use the patronage club against dissident Southern conservatives, the President has virtually synthesized that unstable political substance, the bipartisan coalition. Other things helped, like the sly effort to trade away civil rights in the House in return for Taft-Hartley support, and the Easter vacation to let the boys go home and be worked over by the local labor unions, a procedure which didn't seem to change a vote but made the boys mad.

Trying to put a good face on things, the Administration tries to call the recommitment of the Wood Bill (which looks more like Taft-Hartley) a success. Actually the Thomas-Lesinski bill went back to committee along with the Wood Bill, and with it four months of parliamentary effort to get Taft-Hartley repealed. Also, the House action, even if it doesn't work out to be tantamount to killing the Thomas-Lesinski bill as a straight recommitment normally is, serves notice upon the Democratic leadership that if another labor bill comes out of committee the original bill will have to go much farther toward placating the conservatives than the too little and too late "compromise" casually and illegitimately conceived to try to head off the Wood, or conservative substitute.

So besides ensuring that at least the main outlines of Taft-Hartley shall prevail, the House action of last week is an indicator that the wage-hour bill will be much less sweeping than was thought possible even a couple of weeks ago. Probably the scope of the bill will not be increased at all, just the minimum wage, and it is even possible that proponents of the flexible minimum wage, tied in some way with the general economic trend so that it can on occasion go lower, may get their proposition legislated.

This may also mean a greater success in holding down the ex-

pansion of social security although, as previously reported, the aggregate of the "little compromises" Congress will make to head off the single-jump Truman program for the Welfare State, will be plenty costly.

Although the Senate Banking Committee gave some hearings to the so-called "free market" gold bill sponsored by Senator Pat McCarran of Nevada, this proposition is not regarded as a serious legislative project.

The bill would restore the free market for newly-mined gold, together with importations after enactment, whilst in most respects leaving the government in charge of its hoard and avoiding restoring the gold convertibility of currency. Because of this absence of a frontal attack upon the managed currency problem, it failed to draw support from advocates of an eventual return to the gold standard, and was regarded by Senators as a proposal primarily to raise the price of newly-mined gold.

The hearing was granted as a courtesy to Senator McCarran as the leading advocate of the bill.

Friends of Senator Joseph C. O'Mahoney, generally rated as the outstanding Congressional monopoly hunter and monopoly hater, say that the Wyoming Senator is not only acutely aware of the fact that taxes—inheritance and income—are very important elements of the problem of why small business has difficulty, but that the Senator will reflect those opinions shortly.

The Senator shortly will have a chance to reflect whatever his opinions are, for as Chairman of the Congressional Joint Economic Committee, he is slated in the near future to conduct a bob-tailed investigation into changes in the sources of investment funds.

The probe is to find out, of course, why companies are avoiding acquiring equity money and are going in for term loans from insurance companies and banks.

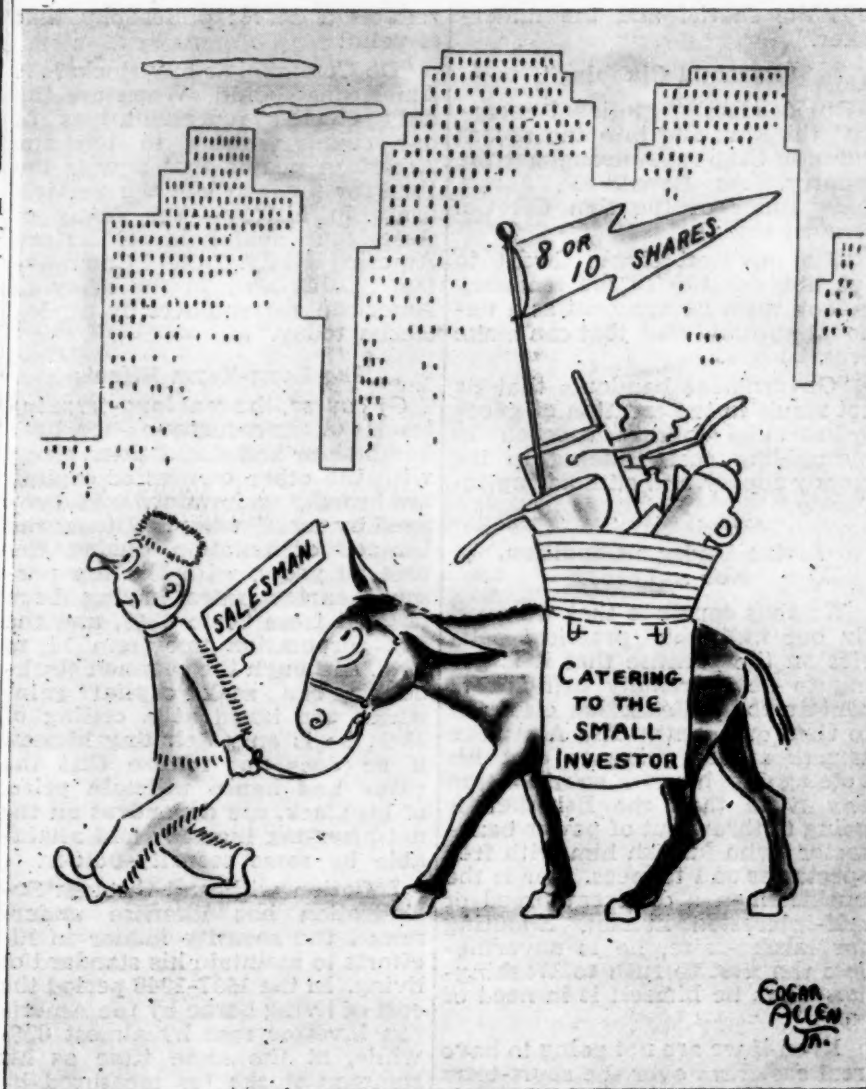
Friends of the Senator say that he was aware of those problems as long ago as January, 1947, when he submitted a report as Chairman of a special Senate Committee on oil policy. While directed apparently at the oil business, his remarks are applicable, it was explained, to all business. Here are two isolated quotations:

"... a national oil policy based upon the principle of free enterprise, would not only safeguard the position of the independent against restraints, but would recognize the handicaps imposed by inequitable tax laws..."

"... when the founder of a small independent (oil company) dies, there is often no one among his heirs to succeed him, and the inheritance tax frequently deals such an enterprise a severe blow. These are considerations which emphasize the necessity for antitrust enforcement, and the revision of the tax laws to remove the apathy toward investment of private capital in independent enterprise."

The proposed \$100,000 probe of the life insurance business has

BUSINESS BUZZ



hurdled the Senate Judiciary Committee but it is having far from a clear track for final approval.

In the Senate Committee, the approval of the investigation was "sold" to the committee on the premise that the House would go ahead anyway if the Senate did not act, so the Senate had better get in on the thing "to keep it on an even keel."

This sales line conflicted somewhat with the actual situation, where the House leaders are holding the lid on Rep. Emanuel Celler's investigating enterprise and initially passed the word to him to see if he could get anywhere with the Senate before they would think giving him any help.

It happens that the proposed investigation has gone to the House Rules Committee for action. It has gone to that Committee under a parliamentary situation where Rules has what the lawyers would call "original jurisdiction" instead of in the customary way of getting time allotted by Rules for something already approved by another committee.

So long as the Rules Committee has "original jurisdiction" there will be no committee approval for the proposition of setting up a joint committee to investigate the insurance business. This means that whatever the Senate may do, the proposition in its present form is dead. Mr. Celler will have to figure out—if he can—some way of walking around the Rules Com-

mittee lot if he is going to get anywhere.

Incidentally, it is reported that the Federal Trade Commission, not the Securities and Exchange Commission as might be expected, is the government agency most anxious to lay regulatory hands on the insurance business after an investigation has broken down the ramparts of this last segment of private financing not forced to operate close-hauled to a Federal government board or commission.

Some thoughts on business: A most prominent manufacturer has found his own business picking up after excess distributor inventories of his product began to work off, and is as confident as the Administration that business is in the "healthy readjustment" stage and may possibly pick up when business finds that killing of Taft-Hartley has failed and that there won't be a tax bill this year.

Why the Administration is confident that what's ahead won't be bad is that this time liquidation of business investment is not occurring simultaneously with declining government expenditures. In fact, state and local works projects, long deferred, are going up.

Behind the strikes at Ford and in the auto parts industries there is the spectre of a build-up for the coming United Auto Workers

big election. It is internal politics within the union rather than the alleged "speed-up" which is responsible for the walk-out.

Automobile inventories normally run on the average of 10 vehicles to a dealer. Dealers have practically "no inventories" by and large. A normal inventory in retailer hands aggregates 500,000 machines.

Senator Harley Kilgore's fond dream of pulling another spectacular lobby investigation this year is held up by Senator Alec Wiley's insistence that government lobbyists be investigated also.

Every once in a while this capital turns out a story akin to "man bites dog." Whereas everybody just about is yelling for Federal aid for every local problem, the state highway departments, the Federal Roads Administration, and the contractors are scraping for all their worth to beat down the program to have the Federal government extend financial aid to local farm dirt roads.

For the purposes of getting the foot in the door, the initial year's program advocated by the farm boys is \$150 million. There are 2.3 million miles of dirt roads susceptible to eventual Federal aid. The primary road system of the country, totaling 30,000 miles, which carries 86% of the traffic, has an estimated deferred maintenance and improvement of \$11 billion.

The road boys are fighting this because they know that the main highway system eventually would be subordinated, but the fight may prove to be futile.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

Holderness Joins Doremus

Marvin E. Holderness, Jr. has joined the New York office of Doremus & Co. as an account executive. He was formerly with the Sam P. Judd Advertising Co. in St. Louis, Mo., since his separation from the service in 1946.

He is a graduate of Vanderbilt University, where he was editor of the Vanderbilt "Hustler."

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Charles Dohanich has joined the staff of King Merritt & Co., 22 East 40th Street, New York City.

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